

8 WEALTH HABITS

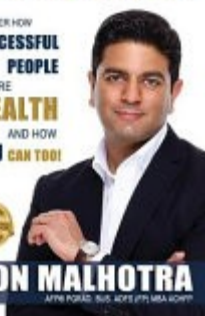
OF FINANCIALLY SUCCESSFUL PEOPLE

DISCOVER HOW
SUCCESSFUL
PEOPLE
ACQUIRE
WEALTH
AND HOW
YOU CAN TOO!



RON MALHOTRA

ATTORNEY AT LAW, BUS. ADVISOR, MBA, MPP



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TO YOUR FINANCIAL SUCCESS
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DEDICATIONS

I would like to dedicate this book to my wife Sandra who has been with me all the way, from the lost stages of my life to the point now where I live and breathe my passion all the time, helping everyday people plan for their financial future. Without you, none of this would have been possible.

I would also like to dedicate this book to my parents and my parents-in-law who are like my own parents. I wish I had known many years ago what I know now so I could have prevented you from making the financial mistakes that have caused the present struggles in your life.

And lastly I would like to thank my sweet daughter Sofia, who has given me the added drive and determination to not only strive for myself, but also leave a lasting legacy for the future generations. Sofia, at the time of writing, you are too young to read this book, but one day I would like you to know that when you call me 'Daa' in your sweet persistent voice, you give me the extra strength to spread my message to everyone I meet, no matter how many times my message of 'plan your financial future' is ignored and rejected.

Finally, I dedicate this book to the millions of hard working and decent Australian men and women who go to work every day for thirty or forty years to provide a better life for their families.

Just remember one thing. It's not about the money. It's about the options and choices in life that money brings...

FREE BONUS



To help you on your journey of achievement and success, we are providing you with free surprise gifts as well as a The Success Answer workbook. This workbook, along with the other gifts, will help you get the maximum value out of the contents of this book. To download your workbook and free gifts, go to <http://unlockyoursuccess.ronmalhotra.com>

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Free Bonus

INTRODUCTION

"Those that do not think about the future cannot have one." John Galsworthy

Sometimes, usually at parties, I wish I had a job with a more exciting reputation. Like a helicopter rescue pilot or a firefighter. Someone people associate with saving lives and changing destinies. Someone crowds gather round, bright-eyed with admiration, to hear stories of heroic deeds and selfless courage.

Instead of this, I have to say: 'I'm a financial adviser'. That usually clears the room pretty fast. Eyes glaze over, heads swivel round frantically and drinks suddenly need topping up. 'Wait!' I want to tell them. 'It's exciting! It's important! I save lives too! I change people's destinies!' But I never get the chance.

I am passionate about what I do. I don't love money but I am fascinated by it and what it can do for us. You see, in my opinion, money is the most important thing in life, except for your health.

'Whoa there. Really?' Suddenly the party crowd is back, ready to argue with the mad money guy.

Yes, it really is that important.

Money is very misunderstood in our society. People shy away from the topic in case they're seen as materialistic or shallow. They bury their heads in the sand when it comes to finance, thinking it'll somehow turn out okay, or they're too young to worry about boring stuff like pensions or insurance. Because you are reading this book I know that you are at least a bit curious about money and willing to be open-minded about how it can help you achieve your goals.

What most people don't realise is that everything important in life like time with your family, health care, good food, medical care, education, the ability to pursue your passion and so on costs money. Money buys you freedom. It buys you options. It helps you become the best that you can be. Not having it can cripple you not just financially but emotionally.

***'Wealth is not about having a lot of money. It is about having a lot of options.'* - Chris Rock-**

I have a client whose family is originally from Scotland. Her parents emigrated to Australia when she was three. Recently, her grandmother died and her mother didn't go to the funeral in Scotland because she couldn't afford the fare. She refused to accept money from her daughter, my client. Imagine that.

Not being able to go to your own mother's funeral because you can't afford it. That's what lack of money does.

Another client of mine told me that she wants to help her elderly widowed father as he has so little money, but that it is causing problems with her husband, who thinks she should stop giving him handouts. My client is torn in two because she sees her father struggling financially yet has to think of her husband. What parent wants to put that burden on their child? Yet if you don't make a conscious decision to take control of your finances early on, this could be where you end up.

As long as you are part of the rat race, working to pay the bills and make ends meet, you can never evolve into the person that you were born to be. That's because all your energy and attention is focused on keeping the vicious money cycle going. This sucks the passion from you faster than any vampire, leaving you feeling robotic and empty.

So that is what this book is about. I want to teach you how to take your life back and to become bold about money. To look it firmly in the eye and resolve to be its master, not its slave. Then you will be empowered and can reclaim your future, financially free and in control of your own destiny.

Why This Book

Growing up, I was one confused kid. I had a lot of energy and passion but no idea how to channel it. I loved books and reading and I started many courses and programs but never finished any of them. The only thing I was really interested in was learning about people who were smart with their money.

I noticed that in the majority of cases, someone who was smart with their money was generally successful in other areas of their life as well.

I recognised the main reason I was passionate about studying wealthy and successful people was because I wanted to be one of them. So I decided to follow a career in banking and finance. I wanted to learn as much as I could about money and people's relationship with it.

For more than fifteen years I worked with people from all backgrounds and walks of life and learned how they managed their money. I got to know people who had no money and lived from week to week. I met people who worked in good jobs and those who had so much money they never needed to work again. And the more I learned about what a powerful force in people's lives money was, the more my interest in the subject grew.

It also didn't take me long to realise that most of the players and professionals in the 'money industry' preferred to deal with the wealthier clients. Apart from the prestige that it brought, the rewards were bigger as they were based on the amount of money the professionals managed or the size of the loans that were written.

I wondered about average people who were motivated to create a good life for themselves and their families. What about them? Who was going to guide them to become more financially successful? That was when I knew I had to write this book, because *everyone* deserves to have the opportunity to become financially independent, not just the wealthy few.

During my time in the finance industry I analysed the behaviour, thoughts and habits of wealthy people to see what they had in common. I wanted to pass on my observations about the mindset of the wealthy, turning them into lessons the average person can learn from. I'm speaking from personal experience too. I have adopted many of these strategies myself and as a result have created a blueprint of financial freedom for my own life.

Don't get me wrong, I'm not trying to position myself as the messiah for the masses or the battlers. No one can help you if you don't already have a desire to improve your life and that of your family. If you are not committed, motivated and responsible then no book, course or advice can help you.

If, on the other hand, you work hard to improve your standard of living, want to provide for your family, leave them a legacy and if you take responsibility for your actions, then this book is for you.

It has been said that one of the biggest paradoxes of financial planning is that people who need advice the most, can seldom afford it. Once upon a time that may have been true, however now there are more and more affordable ways for anyone with the drive and motivation to become wealthy to arm themselves with the right information and wisdom. You only need to seek it out.

The Eight Habits

This book outlines eight key habits and attitudes that are essential if you want

to take control of your financial destiny.

It includes some information that you might not be expecting in a book about money. Because the mind has such a powerful role to play in the creation of wealth we begin by looking at the way the wealthy think and how to take control of that powerhouse between your ears and get it working for you, not against you.

Investing is another issue we tackle, but not just investing in property and shares, although we'll look at that too. How you invest in yourself, your talents, skills and passions is a vital step to money mastery and something that is practiced by successful affluent individuals.

Having money is one thing, keeping it is something else. Did you know most lottery winners blow the whole lot within seven years? You don't want to do that with lottery winnings, your precious savings and investments or any inheritance you get, so we'll examine ways you can minimise risk and protect your assets.

Unless you are a total genius I doubt you are good at everything. I know I'm not. Wealthy people don't try to do it all themselves, they have teams of people to help them. This is not something only for the super wealthy. If you have ever called a plumber, used an accountant or managed a home renovation project then you have already assembled a small team of your own. We'll look at how other's expertise can help you gain financial freedom.

Your Role

To get the best from this book you have to understand some key things:

- This is not a 'get rich quick' or a do-it-yourself guide. I don't believe that you can become financially successful without the right mindset, knowledge, effort and guidance. So if you are looking for a quick shortcut to wealth then I suggest that you stop reading right now. There are no magic bullets and no quick fixes to getting wealthy. Accepting this fact will liberate you from any illusion and put you on the right path to wealth.
- Creating wealth is simple and the principles of wealth creation have never changed. You can be wealthy too if you make the choice to learn from already affluent individuals and follow these principles.
- In my opinion, no book can ever be a substitute for good financial advice that takes into consideration someone's goals, circumstances and values. That's because the value of the advice does not just come from information and strategies but also the wise counsel of a financial planner who understands your unique situation and will prevent you

from making the all-too-common mistakes that stop most people from ever achieving their wealth potential.

- This book is not about today's products, strategies or government regulations. You won't find help on superannuation contribution rules, how to save on an insurance policy or which investments manager to pick. That kind of information depends on someone's unique circumstances and is constantly changing. It's important, but in the grand scheme of things it won't make or break you financially. There are no fuzzy success ideals here either, just specific, time-tested and everlasting wealth habits used consciously or subconsciously by financially successful people.
- Some of the recommendations may come across as simple and obvious. But don't let that fool you into believing that they are easy to follow and stick to. If they were, there would be a lot more financially successful people around!
- It's best to read slowly and enjoy the contents of the book rather than rushing through it. If you find some parts too basic, I suggest you still read them and don't skip past them. Each chapter is a building block helping create a strong foundation of financial knowledge using the strategies of the financially independent. If you follow them, if you do as they do, you too can build a solid financial future for yourself and your family.

Wanting to be financially successful is a worthwhile goal, one of the best you can have in life. I passionately want you to achieve this, even if I do get ignored at parties because of it!

So, are you ready to come on this journey with me and adopt the wealth blueprint? Then let us begin with the first step—getting your head in the right place.

Ready?

CHAPTER 1

THINK DIFFERENTLY

'Wishing will not bring riches. But desiring riches with a state of mind that becomes an obsession, then planning definite ways and means to acquire riches, and backing those plans with persistence which does not recognise failure, will bring riches.'

Napoleon Hill, Think and Grow Rich

I was curled into a foetal position on the floor as they laid into me. One punched me in the head as the other kicked me in the guts. The police had just raided our shared unit and then searched my car where they found the drugs they were looking for. They tested the three of us, I came up negative and fortunately they believed me when I told them the truth—I didn't do drugs and didn't put them in my car. But my 'friends' blamed me for betraying them. Never mind the fact they'd hidden drugs in my car in the first place. Later they apologised; they were high, they didn't mean it. But it had shocked me very deeply.

As I nursed my wounds I took stock of my life. I was a very young student at TAFE forced to share a three-bedroom unit with two guys from school in an area known for drug deals and graffiti. Burnouts, drug busts and police raids were commonplace. You only went out late at night if you were crazy or looking for a fix, or both. I was there simply because I couldn't afford to live anywhere else. After my experiences that night I made a decision. I never wanted to be in a position like that again. I wanted to live life on my own terms and the only way I could do that was by having enough money to create options for myself. I knew it would take hard work and sacrifice, but I was more than prepared for that.

Looking back, I was about to put into action what entrepreneur and author Brian Tracy calls 'the four Ds': drive, determination, discipline and delayed gratification. I had the drive to live on my own in a better place. I was determined never again to let my fate be decided by lack of funds. I had the discipline to save a proportion of my wages from my evening supermarket job. I experienced delayed gratification because I couldn't afford a social life

and had to move into a very basic studio apartment, but the end result was worth it.

A year later and I had saved enough to afford the deposit on my own home. I felt secure and was able to concentrate on my studies. Today, I live in a beautiful house in a lovely area, a place where my wife and little daughter are safe and where people are decent, respectful and hardworking. Money has been able to do that for me. It has bought me security, peace of mind and freedom. I am living life on my own terms just as I resolved to do that night, so many years ago, when I lay bruised and shocked on the floor. I'm telling you this because it illustrates the importance of mindset in the process of acquiring financial independence. All the changes I made in my life stem from that terrible night and the only way I could achieve what I wanted was to take control of the one resource I had available to me at the time—my mind.

The brain is a magical and mysterious force that scientists are really only just finding out about. That three pounds of grey matter can create symphonies and probe mysteries. Your brain, your mind, is your personal powerhouse. During my years in the finance industry, I've met and talked to many thousands of wealthy, successful clients about both their personal and financial situations. In my interactions with them, I've discovered the most powerful common denominators are their thinking and their mindset. The vast majority of those who have accumulated and earned significant wealth (as opposed to inheriting it or winning it) have a different psychological perspective to the majority of people. They understand and value money. They know how powerful it is and what it can do. They believe that being wealthy is a worthwhile goal and they create strategies to help them achieve it. Their mindset attracts wealth instead of repelling it. This chapter outlines steps you can take to do the same, because before you even get to investment strategies or insurance selection, you need to get your head in the right place.

Step 1: Creating Right Beliefs about Money

I heard recently that more than ninety per cent of people rate financial success as one of their goals but only ten per cent ever achieve it. Read that again and consider the implications. *Most people fail to reach their financial goals.* (And by the way, that figure of ten per cent is one of the better statistics, other estimates put it as low as three per cent.) Taking control of your thinking and belief system can help you become part of that small percentage group. The first step is to root out any negative beliefs you have about money.

It is said that by the time you are seven years old you have already absorbed powerful beliefs about how the world works from your parents, teachers and the people around you. These beliefs become part of your subconscious and

affect many aspects of your life into adulthood.

If these beliefs were positive and nurturing then all well and good. But you may have received negative or limiting messages about things, including money. Perhaps you constantly heard that 'money doesn't grow on trees' or 'money doesn't bring you happiness'. These limiting beliefs may still be affecting your attitude to money right now, even if you don't realise it. You could be repelling wealth and sabotaging your chance of financial success, because on a subconscious level you don't believe you deserve it or don't think rich people are very nice.

This may explain why many people often find it hard to hang onto an unexpected windfall or inheritance. It almost seems as if they want to get rid of it as quickly as possible so they can get back to a level of wealth (or poverty!) they feel comfortable with. Maybe you have experienced this yourself or know someone who has. Interesting, isn't it, how much our minds influence our behaviour?

Take a moment to think about the answers to these questions:

- When you were growing up, did your family have plenty of money?
- What were your parents' beliefs about money and how did they manage it?
- What sayings or stories come to mind when you think about money?
- Looking back over the years, is there a pattern in your attitude to money? (For example, do you live for today and spend, or keep a tight rein on your finances?)

Wealthy people don't have limiting beliefs about money. They don't think having money makes you a bad person or that it brings unhappiness and bad luck. They understand that money is one of the most important commodities in people's lives. They think big and attract opportunities rather than pushing them away.

When I'm consulting, I always get to know someone's beliefs, values and what drives them before I try to understand their financial position. Through thousands of conversations I know there is a noticeable connection between people's thinking, beliefs and habits and the amount of money they have.

If you are subconsciously blocking yourself then you are playing a small game and will find it almost impossible to get anywhere financially. You need to change your beliefs.

To change your beliefs about money:

- Become aware of any limiting beliefs you have and resolve to work on them.
- Constantly monitor your thoughts. Nip any negative thoughts in the bud.
- Consider the good you can do if you are very wealthy, helping charities, for example.
- Think about the jobs and opportunities for others created by those with money.
- Remember money is not an end itself, it just gives you options to live life on your terms.

The second step in creating a wealth mindset is to decide you want to join the ten per cent.

Step 2: Acknowledge Desire and Decide to Become Wealthy

Most high worth individuals have gone through a very precise process to achieve financial freedom, it didn't just happen randomly or by chance for them. Two key stages of this process are very obvious but also very easily missed. The first is *having the desire to become wealthy* and the second is *deciding to become wealthy*.

What's the difference between the two? A desire to be wealthy is very important. Acknowledging that this is one of your goals is a crucial first step on the road to riches, because it assumes that you have positive beliefs about money and what it can do. The desire has to be strong. Just as a weak fire produces weak heat, a weak desire will produce weak outcomes.

But desire on its own is not enough. It needs to be ignited by action. So the next stage of the process is actually sitting down and making a conscious decision to become wealthy. The decision should be expressed in spoken or in written form (ideally both) and should be as clear and well-defined as possible. Your mind will then set about creating the right opportunities to make this goal happen.

This isn't a magical formula, although the results can be amazing. It is simply that a mind programmed for a certain outcome will be more aware of opportunities, chance encounters and events and you can then act accordingly. It takes commitment and discipline and is not to be taken lightly, but the rewards are well worth it.

Have you noticed how when you buy a new car, you start noticing the same car everywhere? The cars were always there, but since coming into your

'reality zone', this make and model is brought to your conscious attention. This is caused by our reticular activation system, which helps us pay more attention to the information that is important to us and filters out the distractions. It can be very powerful when you decide to become wealthy because you will find yourself noticing and attracting opportunities. The key is to make an unequivocal decision to become wealthy. And give it time.

Now we need to analyse what drives your wish to become wealthy.

Step 3: Discover Your Values and Goals

Your values are like your inner compass; you steer your life by them and they direct every action and decision you take. Many people never stop to question or analyse what their personal values are. Smart people live their life by them.

Look at it this way. Why do you want money? I'll bet it's not because you like the look of it or the taste or the smell (although to each his own!). It's because of what it can do for you. In my case, lying on the floor after being beaten up, I wanted money in order to live in a place where I could feel secure and to enable me to live life on my own terms. So security and freedom (which gives me more options) are two of my core values. If you are interested, some of the other values that define my beliefs are legacy, family, independence and accomplishment.

If you don't know what your core values are then here is a list to start you off and you will add to it, I'm sure. There are also many resources online that can help you.

Values List

Achievement

Adventure

Accomplishment

Ambition

Authenticity

Balance

Beauty

Change

Community

Communication

Compassion

Contribution

Creativity

Dedication

Diligence

Excellence

Excitement

Expertise

Fairness

Faith

Financial reward

Family

Freedom

Fun

Health

Independence

Love

Loyalty

Money

Nature

Patience

Personal development

Public service

Power

Recognition

Results

Risk taking

Romance

Service

Sharing

Solitude

Success

Teaching

Teamwork

Tradition

Travel

Variety

Wisdom.

Once you know your three or four key values, then it will help you make decisions in many areas of your life, including career and wealth management. All you will have to do is evaluate any choice based on whether it aligns with your values or not.

Former heavyweight boxing champion Mohammed Ali once said: 'What keeps me going are goals'. It is hard to overestimate the power of goal setting. Goals don't just help you focus on results, they also train and program your brain, which creates new neural pathways with every small achievement.

Setting goals creates the foundation for success. From my experience, all wealthy people set goals, constantly review their progress and acknowledge their achievements when they reach their targets. This becomes a lifetime habit. Once they reach one goal, they set a new one.

Goal setting builds confidence. And confidence is essential to becoming wealthy. There are some key points in goal setting which are worth remembering, especially if this is a new concept for you.

Goals should be:

clearly defined

aligned to your passion and purpose

specific

measurable

achievable

realistic

relevant

given a time limit.

You could follow the well-known SMART philosophy with your goals. Your goals should be:

Specific

Measurable

Achievable

Realistic

Timely.

At first, your goals shouldn't be too big. Achievable baby steps lead your brain to believe you are someone who follows through. The more regularly you achieve success, the more your confidence will grow.

Ideally you should focus on your goals regularly and intensely for a short period of time. This focused, repetitive behavior gives you a higher chance of achieving success.

Effective goal setting should involve visualising, verbalising and emotionalising your target. Be passionate about what you want to achieve. However, you should not get obsessed about your goals. Obsession can result in frustration and cause you to give up. Obsession can also result in impatience leading you to take mistaken and ill-considered steps.

Visualising: What does your goal look like? Really focus on the details. Draw it or find a picture of it. Make a collage or a vision board and look at it regularly. Put it by your desk or on the fridge, or make it the screensaver for your computer. Let it soak into your brain. NLP or Neuro Linguistic Programming, which is an approach to communication and personal development, teaches that the more your mind can see clearly, the more it will manifest your thoughts into reality. Try it over a period of time. It works!

Verbalising: The practice of saying something often and with passion results in your mind accepting it as a possibility. This is important. If your mind cannot see that something is possible, it will reject it. Put your goal into

words. Use the present tense because your mind does not know the difference between an imagined event and a real one. Therefore: 'I save \$250 a month easily,' is more effective than, 'I'm going to try and save \$250 a month'. Say your goal out loud regularly. Write it on a card and read it often.

Emotionalising: To fully focus on a goal, you need to connect with the emotions the goal taps into. How does it feel to save all that money every month? What does driving your new car feel like? Experience the emotion as you achieve your target. As with verbalising a goal, your brain doesn't know the difference between a real event and an imagined one, so really connecting with the happiness and excitement of driving your new car makes your brain think it is real. It will then go to work to make reality match up to the emotion!

Working on values and goals will really help you understand your priorities and what lies behind your desire for wealth. But there is another strategy essential to your thinking toolbox.

Step 4: Focus on the Long Term

These days it's all about instant gratification. We want it all and we want it NOW! Well, here's the bad news if you are a quick fix fan. Being financially independent takes time. It takes patience. You need to think carefully about the future before making significant decisions. You have to consider the implications of actions taken over the long term. Sorry to be blunt, but there it is.

Worthwhile things take time. In the book *Outliers*, author Malcolm Gladwell says it takes 10,000 hours to become truly skilled at something. It takes years of study to train to be a musician or a surgeon or a sculptor. It's no coincidence that many wealthy people belong to the professions or have a business background because they understand it takes time to get sufficiently educated and qualified in those fields. Business people and professionals typically make more money than the average person, not because they're smarter, but because they are prepared to work tenaciously for a period of time and don't expect a quick return on their efforts. In other words, they sacrifice instant gratification for a better long-term financial outcome. I've seen numerous examples of investors who have successfully created and sustained their wealth by thinking long term. They don't chop and change their strategy because of opinions, short-term market movements or media noise.

There's a well-known study that shows the implications of delayed gratification. It's known as Walter Mischel's Marshmallow Test. Mischel was a professor at Stanford and in 1972 he carried out a simple test using 600

nursery school children with an average age of four. He offered them a simple choice: eat a marshmallow now or wait fifteen minutes and then, as a reward, have two marshmallows!

Mischel followed the kids' progress for years, right into adulthood. He found that the ones who showed self control and waited got higher grades at school, had more successful careers, better relationships and improved health. Apparently, not giving in to instant gratification has powerful long-term effects on your whole life.

You may have already demonstrated you have the ability to think long term by getting qualified in your career, or by playing a musical instrument or being successful in sport. All these take time and discipline. All I'm asking is that you apply the same principles to financial planning. Don't eat the money marshmallow now! Learn to love the long term and it will love you back.

There is one technique, however that does not look at the long term but concentrates on where you are right now. It's learning to be thankful for what you already have and it's crucial.

Step 5: Practise Gratitude

Someone once said: 'What you appreciate, appreciates'. One of the most important things to do on a daily basis is express gratitude. When you focus on appreciating what you have rather than what you lack, it helps set up the right patterns of thinking, activates your subconscious mind and draws opportunities and positive energy into your life.

This is not some woolly New Age thinking. Dr Robert Emmons of the University of California is a researcher in positive psychology and one of the world's leading authorities on gratitude. He's written a book called: *Thanks! How the New Science of Gratitude Can Make You Happier*. It uses research from all over the world to prove conclusively that people who practise gratitude regularly are twenty-five per cent happier as well as more alert, optimistic and enthusiastic. Deciding to be grateful can also strengthen your immune system and help you sleep. What's not to like?

Gratitude isn't that common these days. Many people expect something for nothing. But being resentful and negative closes doors rather than opens them. Making a conscious decision to be grateful is another step towards mastering your mind and becoming financially independent.

How to Get the Gratitude Habit

- Keep a journal and list three to ten things to be grateful for every day.
- Imagine you were on a desert island with nothing. What would you miss? Now bring those things back one by one. Bet you appreciate them now!
- Think of everyday things you take for granted like clean water, healthy food and heating.
- Before you fall asleep think of three things you experienced today to feel grateful about
- Thank people regularly, from your pizza delivery boy to an author whose books you love.
- Self-help author Steve Pavlina warns us not to get stuck on what he calls 'Level 1 Gratitude', which focuses only on current life circumstances. He says we need to go even deeper to 'Level 2 Gratitude'. He suggests also being grateful for things like:
 - your life
 - the universe
 - time and space
 - problems, challenges and hardships
 - freedom of choice.

Whether you keep it simple or go deeper, showing thanks for the things in your life that you may take for granted and doing this regularly has many positive benefits, because whatever you focus on grows.

I hope you're starting to see that wealth is about much more than just getting money. Let's take a look at another important step. The need to keep learning and developing.

Step 6: Keep Reaching and Take Some Risks

Many financially successful individuals have no need to work or to keep learning. They could easily retire right now and live a comfortable lifestyle. But they don't, because they are continuously learning and developing. Constantly stretching for the next challenge, the next step. You see, they are not motivated solely by making money. They are always on the lookout for ways to make something better, for a new mountain to climb, a new skill to master. That is not to say they are unhappy with how things are, far from it. As we have seen, they show gratitude and appreciation for what they already have, but they also want to keep pushing ahead and achieving goals.

Doing this means sometimes taking calculated risks (not unnecessary risks) and moving outside what is safe and comfortable. But they are OK with that. They aren't afraid to fail, they aren't deterred by setbacks because nothing worthwhile has ever been achieved without overcoming problems. Take

Thomas Edison, inventor of the light bulb. As Edison experimented, he had failure after failure but he didn't give up. 'I have not failed,' he famously said. 'I have just found 10,000 ways that won't work.' That's a great way of looking at things!

Fear is one of the biggest reasons why so many people do not create wealth and reach their true potential. Fear is natural and cannot be eradicated. However, if you strongly want to be wealthy, you need to learn to act despite fear. Once you have made a conscious decision to plan and set goals then everything else should fall into place.

- Once you have completed one goal set another one.
- Spend at least ten minutes a day learning something new.
- Listen to motivational talks and audio books while driving, walking or exercising.
- Resolve to stretch yourself and step outside your comfort zone
- Like Edison, use failures as learning tools—you've learned another thing not to do!

Now for the final step in learning to master your mind. Creating your own wealth manifesto.

Step 7: Your Wealth Manifesto

Set aside some time when you won't be disturbed. Review what we have discussed so far and ensure you are clear about your beliefs, values, goals and long term objectives. Now, think ahead to a specific time in the future when you are in your ideal financial situation. What does that look like to you? Maybe you've never been this specific before. It might help if you try to answer these questions:

- How much money would it take for you to feel financially secure and pay off debts?
- What would your ideal lifestyle be like if you had no financial worries?
- How much per month (or per year) would you need to live the life of your dreams?
- What charities or people would you like to help? How much would you like to give them?
- What businesses or projects could you help? How much would that take?

Once you have thought in detail about what financial freedom actually means to you and tried to put some figures on it, then turn your ideas into a precise statement. Here is an example:

'I value money because it provides security for my family, freedom for me to pursue my interest of horse breeding and also gives me the opportunity to help others. I'm going to have \$1 million in the bank by the time I'm fifty-five and another \$2 million in assets and investments. I will own my own Arabian breeding stud farm and create a charitable foundation to help underprivileged teenagers reach their educational goals, which will be established and self-funding by the time I retire.'

It might take you several hours over a few weeks to come up with your own personal wealth manifesto. Spend some time on this because it is vitally important.

Now that we have established the importance of the right mindset it is time to look at the next vital area—investing. But not the kind of investing you might imagine. Not yet anyway. I want to look first at the importance of investing in yourself.

CHAPTER 2

INVEST IN YOURSELF

'Everything that you're doing is either moving you toward the things that you want to accomplish in life, the person you want to be, the wealth you want to accumulate, or it's moving you away.

‘ Brian Tracy on The Law of Accumulation

The second thing we can learn from the way wealthy people behave and think is this: investing in yourself is one of the smartest moves you can make.

You are your own best asset. If you work on improving yourself and honing your skills, it will stand you in good stead for the rest of your life.

Consider this. Someone aged thirty-three with an average income of \$60,000 a year will have earned more than \$3 million by the age of sixty-seven, assuming an average pay increase of three per cent per year. That thirty-three year old is a walking \$3 million asset.

Maybe you've never thought of yourself and your earning potential like this before, but insurance companies do it all the time. It is possible to discover your own lifetime income potential based on your current age and salary by using the calculator on <http://www.calcxml.com/do/ins07>

And it's not just about financial worth. Constantly learning new things, making sideways moves and being inspired and motivated by the success of others helps build your self-confidence and enthusiasm for life. This in itself is attractive and draws people and opportunities to you. And the more successful you are, the more you will be able to invest in tangible assets to secure your long-term wealth.

How can you improve your chances of success? By building trust, developing your skills and talents, investing in your education and finding someone to mentor you. That's what this chapter is about.

Build Reputation and Trust

One of the cornerstones of a successful life is a good reputation. It is hard to overstate how important this is. You are not going to get a promotion, a loan or a mentor without it. That's why big companies and celebrities hire PR companies, so that they can build trust in their brand and act quickly should anything threaten their good name. There are even companies which specialise in reputation management on and offline. Lots of research has been done showing how people respond to those with both good and bad reputations. A team of scientists from Northeastern University in Boston (ref: <http://www.telegraph.co.uk/science/science-news/8524661/We-stare-for-longer-at-people-with-bad-reputations.html>) found that people stare longer at people associated with negative gossip. Research done by *The Wall Street Journal* (ref: <http://online.wsj.com/news/articles/SB121018735490274425>) has shown people will pay more for products and services from a company with a good reputation and expect big discounts from those they consider unethical.

This is the age of social networking and constant communication. There have been many cases where an off-hand remark on Twitter or a casual comment on a forum has destroyed someone's career. Be very aware that people may do a web search on you before they give you their business or their friendship. The internet is an unforgiving permanent archive of anything that you say or do online, so be very careful never to publish anything you may regret.

Linked to reputation is trust. You need to win people's trust or they won't want to do business with you or have any kind of relationship with you. There are three main ways to win trust: consistent action, congruency and sincerity. This is definitely not a time to 'fake it 'til you make it'. People see through false sincerity in a heartbeat, your actions need to be consistent with your values, which we talked about in Chapter 1.

Trust takes a long time to build but only an instant to lose. Break a promise, tell a lie, fail to communicate or take responsibility and that carefully-won trust can evaporate like dewdrops in the desert. And with it will go your reputation.

Seven Steps to Gaining Trust and a Good Reputation

1. Always do what you say you will. If you can't do what you promised, communicate why.
2. Offer help or take action without being asked to or expecting reward.
3. Over deliver where possible.
4. Treat everyone with respect, regardless of their job or social status.
5. Accept responsibility. If you make a mistake, don't pass the buck.

6. Tell the truth.
7. Give criticism or bad news with compassion.
8. There is something else to do which will help establish a good reputation:

Work on Your People Skills

Over the years you are going to need the help and support of others. It is no good being highly competent if people hate being around you. It's therefore worth taking the time to build your people skills, to improve things like your likability, compassion and emotional intelligence.

The idea of working on being likable may sound a bit fake and calculating. You may be a 'take me as you find me' sort of person and think that being liked is contradicting the concept of being true to yourself and your values. You may relish your reputation as a bit of a rough diamond or a 'character'. Maybe you even think that toughness is a key characteristic of a successful entrepreneur—the 'rich and ruthless' stereotype. We can all name someone well-known and wealthy who matches this description. Just think of Donald Trump's famous catchphrase 'be brutal!'

I prefer the approach of multi-millionaire businessman Richard Branson. In an interview for *Entrepreneur* magazine <http://www.entrepreneur.com/article/217309> called *Nice Guys Can Finish First* he says: 'It is counterproductive to be ruthless. People tend to come back and do more business if they feel they have done well with you. That attitude has helped me over the years to attract and keep good partners and staff.'

'My ability to listen to other people and accept it when their suggestions are better than mine has been useful during my forty years in business. I'm never too proud to admit I'm wrong or take action when others' suggestions are better.'

I know who I'd rather have a beer with!

You can still be yourself while working on being likable, because likability is not about you at all! It is about how you deal with those around you, in person, in writing and online. People like to spend time with those who treat them with respect, really listen to what they have to say and who don't dominate any interaction with their own agenda and opinions. In fact, 'do as you would be done by' is a pretty good motto to bear in mind.

Everyone wants to be listened to and truly heard. (And remember, it is perfectly possible to look as though you are listening without really taking in what the other person has said. That is not true listening.) Everyone wants to

be treated decently and to feel that they are valued and noticed.

This doesn't mean going around with a perpetual smile on your face like Pollyanna and never seeing the bad in anyone. It means that even when you have to tell an unwelcome truth, criticise or deliver unwelcome news, you do it with compassion and respect, no matter who you are dealing with. It means never forgetting that we are all fellow human beings.

Likable people usually score quite highly on the EQ scale. No, that's not a typo for IQ. EQ stands for Emotional Intelligence Quotient and is a behaviour model that began life back in the 1970s, although it took Daniel Goleman's 1995 book *Emotional Intelligence* to bring it into the mainstream. EQ is much broader than a traditional IQ test, which is a measure of intelligence. EQ looks at someone's ability to understand their own emotions and those of other people.

There are four components to EQ: self awareness, social awareness, self management and relationship management. You can learn to control your emotions and alter your default mental state, which will then affect many outcomes in your life in a positive way. It's well worth taking the time to investigate this subject and maybe take a basic course if you find your EQ score could be better.

Something I have personally found very helpful in tackling old patterns of behaviour that were getting in the way of my relationships with other people, is NLP. This stands for Neuro Linguistic Programming and it is one of several methods you can use to learn how your mind works and how to create success. Don't be put off by the name, it's a very helpful system! NLP uses strategies and techniques to help people think flexibly and communicate more effectively.

One strategy NLP teaches is called 'reframing'. This means taking a situation that could perhaps be seen as negative and altering the context or content. To use the example of Thomas Edison, he could have easily thrown in the towel (and left us all in the dark) after numerous failures while trying to invent the light bulb. Instead, way before NLP had been invented he 'reframed' it by saying: 'I have not failed 10,000 times. I have not failed once. I have succeeded in proving that those 10,000 ways will not work. When I have eliminated the ways that will not work, I will find the way that will work'.

You might find it useful to investigate NLP, EI and any other personal development techniques and see what they can do for you. Life is all about the relationships we make, both personal and professional. It makes sense to spend time and money learning how to improve your people skills and how to handle your emotions so you can build the best relationships you can. Investing in these will pay great dividends and help you as you concentrate on

developing your skills and talents.

Work On Your Talents

What are you good at? What are you poor at? Do you know your strengths and limitations? Have you thought strategically about how to leverage your talents?

What's the difference between a talent and a strength? I find it helpful to think of a talent as being a natural aptitude or skill which can become a strength with practice.

I've already mentioned the book *Outliers*. In it, Malcolm Gladwell talks about the '10,000 hour rule' which states that it takes 10,000 hours or five years of practice to truly master something and be considered an expert. Some people have taken issue with Gladwell's claim that just putting in the hours will make anyone an expert regardless of their ability at the start. Experiments have been done showing that natural talent is even more important than practice.

I used to think that it was important to try and improve things I wasn't naturally good at. I figured that if I worked hard enough I would be excellent at everything. Wrong! All I did was spend hundreds of hours getting just a bit better at stuff. I wasn't investing my time wisely.

Think about it this way. If you work on your natural talents you might be able to move from the top ten per cent to the top one per cent. Being in the top one per cent makes you a master, an expert, someone in demand for those skills.

But if you spend valuable time trying to become brilliant at something you are not naturally good at, you may only reach the top thirty per cent, maybe not even that. The top thirty per cent is good, but it's not excellent. It's not expert level. It's not a good use of your time. Work on improving a natural strength and make yourself a master. That makes far more sense. 'Be the best of the best and outsource the rest!', as they say.

How to Discover Your Natural Talents

Most people are aware of things they are naturally good at, but if you're not sure then here are some clues:

1. What do you find easy that other people struggle with?
2. What do people tend to compliment you on?
3. What are you weak at? Now turn it around to find a natural talent. For example, if you never finish things you may be a great 'creator' or

‘inventor’.

4. What do you spend most of your day doing, thinking and talking about?
5. What do your family and friends think you excel at?

Some of the answers may surprise you. Things you had never considered as talents at all, like being an eternal student (ability to learn new information quickly and enthusiastically) or a good craftsman (creative use of existing materials, ability to think outside the box) can be very useful in the right environment.

This environment is one where you feel at home and which makes the most of your unique set of talents and skills. In other words, it usually means that you love being there and that it doesn't feel like work at all.

Be Passionate *and* Disciplined

Steve Siebold, author of *How Rich People Think* says: ‘Average people earn money doing things they don't love. Rich people follow their passion.’

Finding work that you thoroughly enjoy doing, so much so that it doesn't seem like work at all, may take some time and hard self discovery, but it is well worth it. Imagine jumping out of bed on a rainy Monday because you can't wait to begin work. How would that feel?

I'm lucky enough to be doing something I absolutely love. I know being a financial adviser isn't everyone's idea of a dream job (you don't know what you're missing!) but it's what gets me up at five o'clock every morning, what keeps me studying and learning and what makes my heart beat just that bit faster. I don't mind working hard because it honestly doesn't seem like work to me.

It has been estimated that the average person in the west will spend around 90,000 hours at work in their lifetime. An average lifespan of seventy-five years is 657,450 hours. That means work takes up almost fourteen per cent of your whole life! Doesn't it make sense to spend it doing something that you are passionate about? If you choose a job just for the money or to please other people then there will not be enough to motivate you and sustain you through the hard times. Meaningful work must be congruent with your values and interests.

So should you give up a job you're not crazy about to follow your passion? Only if the passion has potential and you are prepared to put in the work to make it successful. What is often left out of the passion argument is the willpower and self-discipline needed to follow through. Passion without

discipline is like a Ferrari without an engine—it's beautiful and sexy but it's going nowhere.

Some people know what their passion is, others are not so sure. There are plenty of books, courses, coaches and websites to help you uncover your passion if you are finding it hard, and please remember that you may have more than one! Also beware of spending a lot of time and energy trying to find 'the one thing' you are meant to do through analysis and tests when in fact the best thing might be to dip a toe in the water and try things out, perhaps as a hobby or through voluntary work before you decide to make it your life's work. Sometimes the very act of beginning something leads to unexpected connections and events that lead you on an entirely unexpected path from the one you were expecting. But if you don't act, the passion will stay in your head and it's doing no good to anyone there, is it?

I have always found it very helpful to learn about how other successful people have achieved their goals and followed their passions and I advise you to do the same. You don't have to travel this road alone.

Get a Mentor

American entrepreneur, author and motivational speaker Jim Rohn once said that, 'You are the average of the five people you spend the most time with'.

Many wealthy people know this and surround themselves with individuals they are inspired and motivated by. They understand that people who drag them down and negate their achievements are not going to help them grow as people and are not going to help them grow financially independent either.

Often successful people who stretch us and encourage us are not part of our day-to-day circle. If you don't have enough inspirational people in your own immediate group then one solution is to find a mentor, someone you can learn from and who is already a success at what they do. There are two ways to do this: find a real life mentor or immerse yourself in inspirational books, videos and courses. The internet is perfect for this.

Finding a Real Life Mentor

- Look for mentors at work. It may be your boss or a colleague. Maybe the HR department has a mentoring system. Find out.
- If you are a member of a professional association find out if they have a mentoring scheme.
- Some universities offer mentoring services to graduates.
- Your state, city or town may have mentoring services for small

business owners.

- Ask friends and colleagues if they have experience of mentoring and could recommend anyone.
- Look outside work to real life inspirational examples in your area, perhaps someone who has been featured in the press, and then make contact.
- Look online and see if there are any websites that can put you in touch with a mentor. The UK, for example, has a website for business mentors called www.mentorsme.co.uk Be aware that some websites expect you to pay for mentoring services.

Alternatives to Real Life Mentoring

Ideally, mentors are real people who you can meet with, call and email. But even books, podcasts, videos and courses are better than nothing. If you find it hard to source a flesh and blood mentor then here are some tips:

- Make it a habit to read the autobiographies of people you admire.
- Watch inspirational videos and listen to educational audios often.
- Make a collection of inspirational quotations.
- Get comfortable and relaxed and then visualise a meeting with a mentor alive or dead. Put your question to them and see what happens!

So far we have looked at getting the right mindset and investing in yourself—both crucial traits of financially independent people. We are systematically building a foundation for your success. The next building block in this foundation is the concept of not trading time for money.

CHAPTER 3

DON'T TRADE TIME FOR MONEY

'Time is more valuable than money. You can get more money, but you cannot get more time.'

Jim Rohn

People use the term 'financial independence' a lot. Have you ever thought about what it really means? You are only truly financially independent if you have sufficient assets to generate the income you need to meet all your expenses *without physical or mental exertion*. David Bailey puts this very well: 'To get rich you have to be making money while you're asleep'.

It's very easy to fall into the trap of trading your valuable time for an hourly wage and then trying to work hard for years to achieve financial independence. This is almost impossible to do. For one thing, there are only a certain number of working hours in the day and a certain number of working days in the year, so your income is automatically capped. And if you can't work for whatever reason, your income stops. Worse still, after a lifetime of hard work, many people face a massive drop in their standard of living at retirement, regardless of whether their income was low, average or high during their working lives.

To break out of this cycle, you can decide to use strategies to grow your wealth. That is the key. *Your money must grow by itself*. It isn't impossible. Wealthy people do not get that way by trading time for money, they use some proven strategies. In this chapter we will look at some of these.

Real Wealth

Here's a small test for you. Read about the two couples below (an amalgamation of some typical clients with the names changed) and then decide who is wealthier.

Couple 1

John and Jane Monroe are forty-something lawyers earning about \$500,000 a year between them. They have a \$2 million home with a massive mortgage, drive his and hers Mercedes which are on lease and eat out several times a week at the best restaurants in Melbourne. They love the latest gadgets and buying fashionable clothes. 'I never ask the price,' says Jane. 'If I have to ask, then I can't afford it!' She admits to spending 'a few thousand' a month on clothes, usually on her credit card. John and Jane have no savings or shares and are always surprised to find very little in the bank at the end of the month. 'I've no idea where it goes! I guess we just live for today,' says John sheepishly. 'Might as well enjoy it while you can!' adds Jane. 'I'd rather have a new pair of Manolo Blahniks than put money in some boring insurance scheme. Anyway we're both strong as horses, aren't we John?'

Couple 2

Sally and Guy Mannering are in their late thirties and teachers on \$120,000 a year joint income. They rent a small apartment in the inner suburbs of Melbourne and enjoy meals out and going to the movies. Both love travelling and they go away for one vacation a year. They have an old Renault but don't use it much as their city location means they can walk or ride to most places. They also own a couple of rental properties and a portfolio of shares, which they have been building since they got married fifteen years ago, as well as a combination of insurance policies to protect their income and assets should anything stop them working. 'We have this rule that we pay ourselves first,' says Guy. 'By that I mean that as soon as our wages come in, we allocate a percentage to building our long-term wealth and paying for all the necessary insurance policies. Then we see what we have left for everything else.'

So who's wealthier? At first glance, this seems like a no-brainer. The lawyers have a huge income and a lavish lifestyle with a lot of 'lifestyle assets' (possessions!) so it must be them, right? It might seem that way, but look at the facts: they have credit card debt, mortgage debt, no insurance, no savings and spend everything they earn each month. Our teacher couple on the other hand don't have as big an income or as many lifestyle assets, but they are far wealthier. Why? Because they don't have credit card debt, they have a portfolio of investment assets and insurance policies in place to protect their income and they are adding to their investments every month.

Income is not the best determiner of wealth. A showy lifestyle can often cover up a mountain of debt. That doesn't mean income is unimportant. It gives you the cash flow to pay the bills and helps you create the foundation to build wealth. But unless you divert part of your income to accumulate investment assets, you will be working hard for nothing but 'lifestyle assets'.

I've used the terms lifestyle assets and investment assets already in this chapter and I want to make sure you understand the difference between them.

An *asset* is any item with a financial value that can be sold for money.

Lifestyle assets are items of value for personal use. Examples include your car, the contents of your home and your main home itself.

Investment assets are items with the potential to grow in value and/or provide money. Examples include investment properties, shares, managed funds and bonds.

Lifestyle assets may increase in value but only investment assets can actually make you money, although it may not be immediately. Unsurprisingly, investment assets are the main focus of this book. They will help you create financial independence as long as you plan their selection and management wisely and 'think commercially'.

The Importance of Thinking Commercially

You can compare attitudes to money to being at school. When it comes to finances, most people are still in kindergarten. Learn how to think commercially and become financially independent and you are at post-graduate level. What does it take to think commercially? You need to learn how to analyse the financial implications of any decision, from buying a new jacket to investing your money. You don't act from emotion. You evaluate the long-term effects of your actions in a calm and logical way.

Most people make decisions based on emotion, usually pleasure or fear. You might buy the latest phone or car because you believe it will make you happy, fulfilled or better than your friends. Or you end up buying a certain brand of face cream because the advertising frightens you into thinking you will look really old without it.

When an emotionally-based decision involves buying face cream, it isn't too serious. When it involves investing, changing jobs or moving home, it can be very serious indeed.

I am encouraging you in this book to be smart with your money and make it work for you. I've argued that it is important to have a passion for what you do and a strong desire to become wealthy— both of those come from an emotional place. But when it comes to actually making the financial plans for your future, you must take emotion out of the equation.

Wealthy individuals know this and take calm well-thought-through action based on how that decision will affect their finances in the future. Will it move

them closer to their financial goals or further away? A tiny change in the course of a boat can mean a difference of thousands of miles as time goes on. In the same way, a tiny decision about finances made today can have a huge impact in ten or twenty years' time. Everything matters, everything makes a difference. You just have to be conscious of it, all the time.

How to Think Commercially

1. Decide on your values and what you really want in life.
2. If something seems beyond your reach, don't waste time wishing or moaning. Instead, ask, '*How can I do this?*' This automatically puts your brain into problem-solving mode.
3. Make every decision consciously. Think about the long-term implications on your finances. Does it lead you closer to or further away from your financial goals?

Remember, everything will be more expensive in the future. You have to make sure your decisions lead to long-term growth so you can live comfortably.

Getting Your Money to Work for You

There are a number of established ways that you can get your money working for you. I want to look at four of them: compound interest, leverage, owning a business and investing.

1. Compound Interest

This is a proven, long-term strategy for making money. Albert Einstein was a big fan and wrote this: 'Compound interest is the eighth wonder of the world. He who understands it, earns it, he who doesn't, pays it'.

The concept is very straightforward and if you are very conservative and don't want to invest in shares you can use a simple savings account to do it. You invest a given sum of money, called the principal, and earn interest on it in the first year. This interest is your 'return' on the money invested. So now you have more than you started with—the principal plus the first year's return. Leave the money alone and the following year you earn interest on this larger sum. Repeat the following year and continue for as long as you can! Over time, even a small amount can build into quite a substantial sum. Of course, how substantial will depend on the rate of interest.

For example, \$10,000 invested at four per cent will give you a return of \$400 in the first year. However, in the second year the same money invested at the same interest rate of four per cent will give you a return of \$416. In the third year the same money invested at the same interest rate of four per cent will give you a return of \$432.

As you can see in the above example, even if you do not contribute any extra to the initial \$10,000, the return automatically increases year after year, as long as you reinvest it.

Of course, high returns come with high growth/high risk assets and your adviser will be able to assist you in determining an appropriate mix for your objectives, timeframe and understanding/tolerance of risk.

To give you an idea of how powerful this strategy is over the long term, here is a table showing what happens to \$10,000 invested over a fifty-year period with the annual returns reinvested:

Compound Interest Tables - The Value of \$10,000 Invested In a Lump Sum

Years	4.00%	8.00%	12.00%
10	\$14,802.00	\$21,589.00	\$31,058.00
20	\$21,911.00	\$46,610.00	\$96,463.00
30	\$32,434.00	\$100,627.00	\$299,600.00
40	\$48,010.00	\$217,245.00	\$930,510.00
50	\$71,067.00	\$469,016.00	\$2,890,022.00

How to Benefit from Compound Interest

- Expect to be in it for the long term, the longer the better.
- Reinvest any returns automatically.
- Avoid the temptation to withdraw any funds.

2. Investing in Quality Assets

To become financially successful you must invest! You must become a consistent investor if you want to grow your wealth. Investing means buying quality assets to gain income, growth or both over the long term. I deliberately

use 'long term' because I fundamentally believe that time is an important factor in creating wealth. The sooner you begin the better.

Is it possible to make money in the short term? Of course! Is it likely? Of course not! It's just speculating or gambling in my opinion because it's not based on the fundamentals of investing. Also any activity that relies on price movements or price anomalies should not be called investing and be seen for what it is—speculating! Share trading, commodity trading, forex trading and CFDs (contract for difference) all fall into that category. Warren Buffet, the billionaire investor puts it brilliantly: 'We believe that according the name "investors" to institutions that trade actively is like calling someone who repeatedly engages in one-night stands a "romantic".' Investing gives you a high probability of making money, speculating gives you a low possibility of making money. Choose one!

3. Your Own Business

Most financial advisers and financial planners don't recommend starting a business as a way to create financial success. This has always baffled me, because a well-run business has the potential to generate significant wealth for its owners. A 2011 study involving the bank Merrill Lynch discovered that almost half of the world's millionaires grew their wealth through starting their own business. Encouragingly, they also added that, 'You do not have to be genius to build a million-dollar business'.

Businesses are engines of economic growth, helping generate revenue in the economy and create employment. Most governments (including the Australian Government) have significant incentives and benefits for people who start, buy or expand a business. These concessions take the form of lower tax, the flexibility to distribute income and the opportunity to pay expenses out of income before paying tax on the left over amounts.

An employee, on the other hand, can only spend what is left over after taxes are deducted. And usually they have limited flexibility to minimise their taxes.

The owner of a successful business is building an asset, which can often be sold later for an attractive sum. If the business is systemised and automated, which often happens once it is well-established, it can produce an ongoing passive income for the owner once he stops work.

Compare this with what happens to employees who stop work because of retirement, redundancy, illness or disability. Their income stops too. And, in most cases, if they have not been diligent enough or had sufficient time to build an investment asset base with their income, there is very little to show for all that hard work over the years.

Setting up a business isn't for everyone. Some people may not have the necessary life experience or mindset. Others may not have the most compatible occupations—a senior librarian might find it hard to set up her own library service, for example.

Over the years, I've met many people who should be running their own show. They have the capability, expert skills, a great relationship with customers and fantastic commercial acumen, but they just haven't taken the next step. I've found there are a number of reasons for this. Some are busy earning a good salary making a profit for someone else so they haven't gotten around to making it for themselves. Others lack confidence and fear the unknown and so don't want to try. And some have never even realised that running a business could make great financial sense for them!

Owning a business does carry risks which need to be carefully understood and managed. However, a properly thought-out and implemented business plan can create a low-risk, secure business that generates good cash flow and profits and gets free capital gains without exposing the owner to unnecessary risk.

And who is in the riskier position anyway? A fifty-year-old business owner with a good product, a good team and 500 customers? Or a fifty-year-old employee who gets paid monthly and whose continued employment depends on his next three-month appraisal from a thirty-five year old direct manager? Increasing globalisation, outsourcing and an emphasis on lean profitability means that employment may end up being the riskiest strategy of all in the long term.

While it is outside the scope of this book to teach you how to run a successful business, these are some of the key ingredients that successful business owners need:

- sales and marketing skills
- financial management skills
- people management skills
- a strong product or service that serves a need
- a good business accountant or financial planner
- a good understanding of the market
- passion
- determination
- the tenacity to keep trying and never give up.

Remember, business skills can be learnt and there are many courses and books to help you. But two things you won't get from books are tenacity and passion.

Tenacity is extremely important because the first few years are full of challenges and uncertainty. Get through that early period and the chance that your business will survive and be a success increases substantially.

Passion, on the other hand, has to come from within. It is an absolute prerequisite to running a successful venture.

***'The richest people in the world look for and build networks;
everyone else looks for work.'***

Robert Kiyosaki

4. Leverage

One way to increase the size of your asset base is to borrow to invest. This is known as 'leverage' or 'gearing'. The concept of leverage is a simple one. It means using other people's money to invest. The perfect scenario is to borrow at a low rate of interest and invest to achieve a higher rate of return. The difference between the two, after you have repaid the loan and any fees and taxes, is your return.

The reverse of this is pretty obvious. If you borrow at a higher rate than your investment yields then you could lose not only your initial principal, you could also end up owing money to the lender. Therefore, this is a strategy not recommended for the faint-hearted, inexperienced or financially desperate as it carries risks. For inexperienced investors it *may* be worth considering as long as you have a qualified adviser to help set up and manage the strategy (through financial buffers, liquidity and so on).

A well-structured leveraging strategy that can be sustained can bring very high returns. The quality of asset you buy using a gearing strategy is crucial so again, I wouldn't advise you to try to do this yourself without professional advice.

There can be tax benefits to leverage. When the ongoing costs of borrowing are higher than the income received (known as 'negative gearing') the loss can be deducted from your taxable income. This risky strategy only works if you can make a profit on your investment at some point in the future. If an investment is positively geared then the income is greater than the costs and you will be liable for tax on the net income.

Some companies offer special loans for people who wish to use the money to invest. Known as margin loans, they use shares or managed funds as security so if things go bad, the lender can sell the shares or access the funds to repay the loan. Lenders usually protect themselves against the volatility of the share market by making sure borrowers don't borrow more than seventy per cent of

the total value of their shares. This ratio, which is your loan divided by the value of your shares, is called a 'Loan to Value Ratio' (LVR). (I hope you are making notes, I'll be testing you on this later!)

Let's look at some of the pros and cons of this kind of investment before deciding if it is right for you.

Advantages of Leverage

- The tax law in Australia currently allows you to use the cost of borrowing to reduce taxable income provided the asset purchased provides, or has the potential to provide, assessable income.
- It can be a fast way to accumulate wealth.
- Returns can be high.
- It lets you invest more than you could afford if you just used your own money.

Disadvantages of Leverage

- If the market falls you can lose not only your investment but assets secured against it, which may include your home.
- A lender may force you to pay off a margin loan at short notice if they change their view on its value as security.
- You may be forced to sell your investment at a low price if the LVR drops.
- You may never recoup the losses of a negatively geared investment.

Is Borrowing to Invest Right for You?

As I have explained, this is a risky strategy but it can be a highly profitable one too. If you meet the criteria on the following checklist, it could be worth investigating with your adviser.

- You have a steady income stream or another source of funds.
- You can afford to lose all of your investment.
- You will get maximum benefit from any tax concessions.
- You understand the risky and volatile nature of the market.

Five Tips When Using Leverage

Here are some tips that can keep your risk at a minimum.

1. Keep your borrowing a low proportion of your investment (seek advice regarding an appropriate level for your situation).
2. Spread the risk; don't put all your eggs in one basket. Diversify your investments.
3. Ensure you can afford loan repayments if the interest rates suddenly rise.
4. Pay the interest regularly on margin loans even if it is not a requirement of the loan.

I hope you agree by now that it's a good idea to look for alternatives to the 'working x hours for y dollars' strategy. Making money while you sleep is a much better way! In case you need further convincing, then consider the question of tax. The more successful you are in your 'time for money' job, the more income you get and the more tax you pay. However, the reverse can be true for investment income. It can be far more tax efficient to invest in investment assets or business. This is the government's way of incentivising investors and business owners and penalising income earners, because investors and business owners are the greatest generators of, and contributors to, economic activity. So the sooner you make the transition from an income-earner to an investor the better, because over time, these investments can make you money and save you tax.

Investing is such a key part of your financial success that we are going to devote the next chapter to looking at it in more detail. Before we do, it's time for you to evaluate where you are right now.

Asset Check

Make a list of your assets and put them into either the 'lifestyle' or 'investment' category.

- How much of your income a month do you spend on the two types of assets?
- If you spend most of your money on lifestyle assets, how much could you afford to divert into investment assets?
- If you are not already doing it, how soon could you start putting a sum every month into investment assets?

CHAPTER 4

INVEST TO CREATE WEALTH

'Nowadays people know the price of everything and the value of nothing.'
Oscar Wilde.

As this chapter is about investment we first need to address an important question. Why invest? The answer is quite simple. You need your money to work for you. Without investing your money can't grow and your money can't make money.

If you completed the Asset Check at the end of the last chapter then you should have a pretty good idea of how much you spend on lifestyle assets and how much on investment assets. If you are serious about creating long-term financial freedom then you now understand the importance of diverting a part of your income into creating, buying or building assets. These assets will grow and, at some point, allow you to stop trading your time for money. The ultimate aspiration is to be in a position in which you 'make money while you sleep' and don't need to work to keep up with your lifestyle. Instead, work is a choice. You might do it to supplement or enhance your lifestyle, or simply because you enjoy what you do and it keeps the old grey matter active!

Affluent people know that the secret to making money and having it work for them is to make a plan, invest in quality assets, spread the risk and hold the assets for a long time. Let's examine assets a little more closely, starting with your home.

Your Home – Lifestyle Asset or Investment Asset?

Joanne is fifty-eight and has all her money tied up in her lovely house and garden. Over the years she has been steadily paying off her mortgage, in fact, every spare penny she has made or been given has gone towards reducing her home loan or spending on the house, which means she has no savings or

investments. She's proud she has no other debts. The house has gone up in value over the years and she has installed a new kitchen and bathroom which cost over \$30,000 but she added that to the mortgage as she figured it would increase the value of the house in the long run. She pays quite high rates and as the house is an older property, it will soon have to have a new roof. She's still working out how she's going to pay for that! Joanne has a job as a pharmacist and will have to keep working for the next seven years at least to pay off the mortgage. Once that's done she might consider some investments. She hopes to be able to enjoy a comfortable retirement, maybe even do some travelling, and there's always her beautiful home to come back to.

The problem with Joanne's situation is that she is looking at her house as an investment asset. In my personal opinion, a home (as your primary place of residence) is more of a lifestyle asset and here's why. Even though it may increase in value over a period of time, it does not produce income and continues to cost money in the form of maintenance expenses, council rates and so on. Sometimes having a home, especially a nice home, can create an illusion of wealth in someone's mind. Joanne thinks she is well on the road to financial independence as she has a property with a small mortgage and no debts. But she doesn't have any investments and income producing assets and without those, even if she eventually owes nothing on her home, it is impossible to become financially independent. Where is the money going to come from for her to live a comfortable retirement and travel? Of course, she could sell the house, but that kind of defeats the object of her spending all these years working on it.

I'm not saying you shouldn't buy a home to live in. Owning your own home has many benefits: it forces you to save, the equity in the home's value increases, it gives you a sense of security and also gives you a capital gains-exempt asset. But home ownership is NOT a substitute for investment in growth and income-producing assets.

Joanne thinks she is doing the right thing by paying off her home mortgage in full before investing. Time and money that could have been used to invest for her future has gone into paying off her home debt and it may potentially be too late for her to grow her investments at the required rate of return for her to have a comfortable retirement. She has also tied all her wealth to a single lifestyle asset, which does not make good financial sense.

I'm using Joanne to illustrate some general principles, but please remember that each case is different. You need to find a balance between home ownership, which is essentially a lifestyle spend, and investing, which is essentially a plan for the future when you have no more income because of retirement or another factor, such as illness. If you aren't sure where you stand in regard to this then I suggest you contact a suitable and experienced financial planner who will help you understand your situation and tell you

what action you need to take.

Time to look at investment assets in more depth, beginning with how they are categorised.

Asset Class:

In simple terms, assets can be split into different categories or classes. Assets with similar characteristics tend to fall into the same asset class. Investments in a single asset class are expected to have similar risks and returns and perform in a similar way in particular market conditions.

There are four main asset classes. (Some may argue that there are more than five asset classes, but I don't consider making money simply through price anomalies without holding anything of value meets the definition of an asset class.)

The four broad asset classes are:

Risk: low **Potential return:** low

Risk: low to moderate **Potential return:** low to moderate

Risk: moderate to high **Potential return:** moderate to high

Risk: high **Potential return:** high

To add a little complexity to the mix, each asset class can be split into sub-asset classes. For example, fixed interest can be divided into international fixed interest and Australian fixed interest, which can be further divided into government bonds, corporate bonds and so on, each carrying different risk and return characteristics.

Property can be divided into residential property, commercial property, industrial property and property trusts. Property trusts can be further divided into listed or unlisted property trusts, and so on.

Shares can be divided into macro cap, small cap, mid cap, large cap, international, emerging markets and so on.

Are you starting to understand some of the complexity associated with investments and asset classes? Fortunately, you don't need to be a financial expert in order to make wise financial decisions. There are other factors besides technical expertise that will have a stronger influence on your ability to create, grow and keep your wealth and I'll discuss these later on in the chapter.

It is important to have a basic understanding of the technicalities though, so you can understand your investment decisions better. Knowing the basics will also allow you to have more informed conversations with your financial adviser during your regular reviews. It will also help you assess whether your adviser is providing you with good value.

Further Steps

If you want to learn a little more before you approach a financial adviser, then consider the questions below:

- Which asset class do you currently know most about?
- Which asset class do you currently know least about?
- Are you drawn to any particular asset class? Why?
- What research can you do to find out more about an asset class that interests you?
- Now you know how assets are categorised, let's examine two more key concepts when investing—diversification and direct or indirect investments.

Diversification

Just as being overweight can be detrimental to your health, being overweight in one asset class can be detrimental to your wealth! Diversification is the golden rule, and simply means investing in a variety of assets to reduce your risk while maintaining an overall target return.

To make diversification work, each investment in the mix must work differently in any given market condition and economic situation. Put very simply, if one goes up the other goes down. In the world of finance this is known as 'negative correlation' and there is much more to it, such as whether two asset classes or investments are negatively correlated if they perform in the same direction but to different variances. I could go on—I love this stuff—but my aim is not for you to become a technical expert, just to have enough working knowledge to understand how your investment portfolio has been constructed by your adviser and the logic behind it.

Over many years of consulting I've identified two of the most common diversification mistakes. They are not being diversified even if you think you are, and diversifying too much.

1. Not Really Being Diversified At All

From time to time I meet investors who think they're appropriately diversified when in most cases they aren't. Here are some examples:

- Investor A holds shares in ANZ, Commonwealth Bank and Westpac. She's not diversified because the shares are in one sector (banking) only.
- Investor B has invested in the banking sector and the mining sector. He *could* be diversified, except that both investments are in the same country. This is risky because of the geographical concentration.
- Investor C holds an attractive portfolio but all the shares are large cap. He's not diversified because he has no exposure to small cap.
- Investor D only holds shares and no other asset classes. You've guessed it—she's not diversified.
- Investor E holds a variety of residential property all in the same geographical region—not diversified.

All these people have mixed up having a *collection of assets* with having a *diversification of assets*. The result is that they are exposed to higher risk because all their investment eggs are in one basket. The fact that the eggs are different colours doesn't change that fact!

2. Diversifying Too Much

It is possible to have too much of a good thing. Some investors hold too many investments, almost to the point where they might as well not hold anything at all. What's the optimum number? It depends. There are as many opinions on this as there are financial advisers. The bottom line is that if you hold too many investments or funds you may end up with an ineffective, very expensive and difficult to manage investment headache.

Diversification is a complex area as you can see. It's outside the scope of this book to teach you how to construct a diversified investment portfolio. I just want to highlight the importance of diversity in your investments and explain some of the biases and misunderstandings about what exactly diversification is.

How much you should diversify and what you should diversify depends on the existing assets you hold, your time frame, your objectives and your understanding of the investment markets. It is always best to get advice in these matters, so call upon the services of your financial adviser, that's what we're here for.

3. Direct and Indirect Investing

Direct investing means holding an asset directly. It doesn't matter who owns it—an individual, a company, a trust or a self-managed superannuation fund. Examples of direct investing include owning residential property, commercial property (offices) or owning BHP shares in the name of an individual or a couple.

Indirect investing means you do not buy the asset that generates the return directly, but invest in a company or fund that does. For example, if you invest in a managed fund that invests in shares, or a property trust that invests in a range of industrial properties or shopping centres then you have invested indirectly.

To make this a bit clearer, here's an example: if you buy land and build an office block you are investing directly. If you buy shares in a company that builds office blocks, you are investing indirectly.

Which is better? It depends. Each has advantages and disadvantages that need to be weighed up carefully. Direct investing allows more control over ownership, sale flexibility and tax flexibility. Indirect investing allows more diversity, access to opportunities and potentially cheaper entry.

Ask your financial adviser if you should use direct investing, indirect investing or a combination of the two and ask them to explain why. If their reasons don't resonate with you, get a second opinion.

There's a lot more I could go into about the technical side of investing. We'll look at areas like volatility and asset protection in later chapters. But for now, let's move on to some basic principles of investing.

4. Shares or Property?

Time to look a little more closely at shares. What is a share? A share means you own a small part of a business. Why is this a good idea? Because businesses are the biggest engines of wealth in an economy. They create wealth and provide employment, products and services. Quality businesses grow over a period of time and by having a share in that quality business you will benefit too.

I know people get scared of buying shares, but that is because they are looking at their short time rise and fall of share prices and the share market and this causes them to panic. The long-term movement of shares in quality businesses has generally been upwards. And that is the key; looking at the quality of the business, not the price of its shares.

For example, the price of a Commonwealth Bank share just before the global financial crisis was over \$60 but after the crisis that price plummeted to less

than \$30. I had clients who got spooked and sold their shares at a loss then re-invested them in a Commonwealth Bank term deposit! They went from being owners of Commonwealth Bank to becoming loaners to Commonwealth Bank. As Nick Murray says, 'Loaners never win!' And because the quality of the Commonwealth Bank's operations, management and assets did not materially decline, Commonwealth Bank shares (at the time of writing in 2014) are trading at above \$80. (By the way, this is not a recommendation to buy Commonwealth Bank shares, it's just sharing an observation).

That's what shares do. They are volatile and sometimes one needs to separate share price volatility from the underlying quality of the business/company. If you stick with shares in quality businesses such as Google, Apple, eBay and Commonwealth Bank, you will be investing at the top of the food chain, in the place where wealth is created.

'The main danger is that the timid or beginning investor will enter the market at a time of exuberance and then become disillusioned when paper losses occur.'
Warren Buffet.

If you are properly diversified at a sector level (banking, mining and so on), a geographical level, a size level (small, mid and large cap) and an industry level, then it is almost impossible to lose money over a long time frame as long as the capitalist economy prevails.

But I know that many people in Australia avoid shares and prefer to invest in property instead. Human nature is such that people are drawn towards the familiar, even against logic or common sense. Property feels like you are on familiar territory. Now don't get me wrong, property (by which I don't mean your prime residence, but a property used to create income or growth through capital gains or investment or both), is a great asset to have. However, it has its unique risks, which we'll examine in a minute. It is better to have both property *and* shares in your investment portfolio, as long as you have a longer time frame to play with (ideally ten years or more—the longer the better).

It might be useful to look at the advantages and disadvantages of both property and shares to get the full picture.

PROPERTY

ADVANTAGES	DISADVANTAGES
Tangible	Significant acquisition costs
Serves a basic need	High ongoing costs (maintenance, interest payments, council rates etc.)
You can use leverage (e.g. pay \$50K and borrow the rest)	Diversification is more difficult as it is a bulky asset
Easier to borrow money against	Requires more maintenance and management
Can provide income from rent	Can remain stagnant for years if bought at wrong time (property travels in cycles)
Significant depreciation tax benefits	Interest rate risk if you use borrowing to support purchase
Goes up in value over the long term (provided it is close to infrastructure and stable employment)	Takes time to sell
Less volatile than shares	Selling costs can be high
	Not easily divisible (can't sell just the bathroom for example!)

SHARES

ADVANTAGES	DISADVANTAGES
Need smaller outlay	Can be highly volatile in short term
More liquid – easier to sell	Markets may be susceptible to human emotions
Easy to diversify	Relatively difficult to borrow against
Easier to manage	Advice is required
If properly diversified will typically go up in long term	Susceptible to media noise
Generous tax benefits (franking credits)	Lacks tangibility factor
No significant acquisition or selling costs	
More susceptible to emotional/logical considerations	

Because property and shares have such different characteristics they can be used sensibly to complement each other to grow wealth and reduce risk where the time frame is appropriate. It doesn't have to be an 'either/or'.

Back to Basics

It is said that investments are driven by fear and greed. Nothing could be truer. My approach to wealth creation doesn't depend on predictions and emotions about the future, but instead relies on basic fundamentals. These fundamentals have stood the test of time but seem to have been forgotten about recently.

Creating wealth can take a long time. I have yet to see an example of anyone that has made sustainable wealth in the short term and managed to keep it. Mistakes can be costly. Many people will never get a second chance if they get it wrong.

With so much at stake, it is vital to build wealth the right way and to preserve the wealth as it gets built. What takes decades to create can be lost in a few months. Successful wealth creation addresses both safety and performance

without compromising either.

Ten Fundamentals of Sound Investing

These ten golden rules do not change over time and are crucial to your financial success. Here they are:

1. Plan. Planning is simple but sticking to a plan requires discipline. If you don't have discipline then either get some or delegate it to someone who will help you stay the course.
2. Always be on your guard against two things: permanent loss of principle and erosion of purchasing power.
3. Reduce investing costs. High cost investment strategies don't always mean high returns.
4. Keep it simple. Simple to understand and simple to implement. A complex or fancy sounding strategy may be a clever attempt to conceal information from you.
5. Diversify. It reduces risk. But guard against over-diversification and don't confuse a diversified portfolio with a collection of investments. The difference lies in the correlation.
6. Buy quality assets. If a company has too much debt, don't buy it. If it's losing money, don't buy it. If it doesn't have a history of consistent and long-term earnings, don't buy it.
7. If you want to speculate, then only invest between five per cent and ten per cent of your money in speculative assets.
8. Be sensible. If it is too good to be true, it most likely is. There is no such thing as a high return strategy with a low risk.
9. Minimise tax liability for investment income and investment gains.
10. Stay in it for the long term. Timing the market consistently is almost impossible to achieve. Long-term investing carries less risk as long as you stick to the principles above. Remember the old saying that successful investing is about transfer of wealth from the impatient to the patient!

Failure and Success

A big part of successful wealth creation is understanding what *can't* be done. That way you don't waste time, money and energy. Some of the biggest wealth-destroying factors are:

- fear, greed, impatience and indecision
- poor decisions
- inflation

- lack of knowledge
- bad timing
- using the wrong investing style
- tax, lawsuits and relationship splits
- accidents, illness, injury and premature death.

These can be turned into positives, to create a formula for investment success, which is my aim for you.

Success Factor 1: Master Your Feelings

Fear, greed, impatience and indecision are all part of human behaviour. As British-born 'father of investing' Benjamin Graham puts it: 'The investor's chief problem, and even his worst enemy, is likely to be himself'. Your behaviour will, by and large, be the single most important factor affecting your long-term success. If you don't believe this, you should look up the Dalbar Study. It demonstrates how investors failed to capture investment returns because of their own impatience and feelings of fear and greed. People also love to follow fads and listen to gossip and media noise, but this is not at all helpful when looking to invest for the long term. Ignore the razzmatazz!

Success Factor 2: Allocate Your Assets Wisely

You don't want to make poor decisions in asset allocation, which is a fancy expression for how you split your money between different asset classes. If you have all your money in cash, you also risk the horrors of inflation because you get less and less for your money as time goes on. Base your asset allocation on your objectives: how much time you have, how long until you need the money, your understanding of risk and your level of comfort with the ups and downs of the market. Many finance professionals suggest investing in riskier and more volatile growth assets in the early years and then reducing risk as clients approach retirement. On the surface, this makes sense, until you consider that the average person lives twenty to thirty-five years in retirement. The real risk is how quickly you will run out of money and will your money keep up with the ever-rising cost of living. Your adviser will help you to find an appropriate risk-reward trade off that you are comfortable with to give you the best chance of achieving your financial objectives. Having said that, the best asset allocation in the world created by the most brilliant adviser will not work if you succumb to emotions of fear, greed or impatience, as mentioned in the point above!

Success Factor 3: Choose Good Investments

Which securities (listed/unlisted investments) you pick as part of your portfolio may be an important factor in your investment success. Although a lot of academic and independent research shows that the ability to pick investments is not a key criteria when it comes to long-term investing success, sometimes specialised knowledge of security selection has the potential to enhance investment returns from time to time. Your adviser will be able to give you their view on this. Keep in mind, ultimately this will not be the deal breaker or deal maker in your long term financial success and it is not important as points one and two above.

Success Factor 4: Don't Worry About Timing

Timing is financial jargon for when you buy and when you sell. Short-term investors love the subject because timing is critical for them. I would put market timing in the same basket as trading or speculating. It is damaging to long-term wealth creation, so don't let it concern you.

Of course, if your time frame is short, for example less than five to seven years, timing does become crucial. However, for that reason it may be best to avoid high growth/high volatility investments if you are going to need your money or sell your investment within a shorter time frame.

Success Factor 5: Understand Investing Styles

Active investors aim to beat the market or a chosen benchmark. Passive investors aim to replicate market movements. Passive investors believe that financial markets are efficient in the long term and that they don't need to try and beat the market to benefit from asset returns. There are proponents of each style in the industry and in the investor community. If you cannot decide between the two investing styles, you may opt to use both to construct a sensible portfolio. There are pros and cons to each and your adviser can assist you in deciding which one and what proportions may be better for you based on your individual circumstances. The important thing is that you understand the differences between the two and which one you naturally tend towards.

Success Factor 6: Minimise Risk

Successful investors do all they can to pay the lowest amount of tax they can,

to protect themselves against lawsuits and to keep their risk at a minimum. There is a chapter on this coming up as there's quite a lot to think about. Risk is part and parcel of investing.

Success Factor 7: Preserve and Protect Wealth

Miguel de Cervantes wrote: 'To be prepared is half the victory'. The simple fact is that bad things do happen, often when we are least expecting them. Wise and successful investors know this and have strategies in place to make sure their wealth and their families are protected should they suffer from an unexpected injury or illness or worse. This is a very important area and we are going to examine it in full in the next chapter.

You will meet many challenges on your wealth creation journey. Just knowing that helps prepare you for them to the best of your ability. There are no easy rides but if you are prepared you will ride through the challenges a lot better. An important takeaway from the Success Factors list is how much control you actually have. So next time someone says that you can't control investment outcomes, you know that they're wrong. You can. And remember—stick to the fundamentals that have historically always worked for wealthy people and don't fall for the latest investment fads.

In the next chapter we're going to look at ways to make sure your income and assets are protected, because it's crazy to work hard to create wealth and then lose it all.

CHAPTER 5

PRESERVE & PROTECT WEALTH

'The trouble with insurance is that you can never buy it when you really need it. So you have to anticipate your need to buy it hoping you never will need it.'

Robert Kiyosaki

'Is all my money really gone?' an investor once asked his adviser. 'No, of course not,' came the reply. 'It's just with somebody else!'

We have discussed the importance of getting the right mindset to become wealthy, investing in yourself and establishing an investment strategy for the long term, perhaps through using a proportion of your salary every month. Over time you will grow your wealth. But this is meaningless if you do nothing to protect it. It can take from twenty to forty years to create a strong financial foundation, but only days, sometimes just hours, to lose everything.

Wealth creation is like turning on a water tap over a sink. If the sink has no plug in it, then the water will just drain away as fast as it comes in. Having strategies to preserve your assets is like putting a plug in the sink. In other words, to avoid leakage of wealth, plug all your financial gaps first. Wealthy people understand the importance of creating these 'plugs' to protect and preserve their assets for themselves and their families for generations to come. As always, they think long term.

Here are some key strategies that anyone can use, although they are best implemented as soon as you can. It is never too early to start planning and people who take action in their twenties, when life is good, will be in a much stronger position further down the line if anything should happen to their health or their means of earning a living.

That doesn't mean to say that anyone in their forties or older is leaving things too late. Any action is better than none at all. But the younger you are when you start using these strategies the better, so make sure you pass this information on to your children as well!

This chapter will look at insurances and estate planning. I know this subject is

one most people avoid like the plague and I agree, it isn't thrilling. But maybe this true story will help convince you of just how important it is.

A client of mine had a \$900,000 debt on his business. We had talked several times about life insurance as he had a wife and young kids. He agreed it was probably a good idea but there was no real sense of urgency. He had mentioned to me several times that if anything happened to him his wife could sell the business, which would cover the debts and give her a substantial lump sum to live on. Finally, he took home the paperwork for the insurance. I would phone him every so often to remind him to send it back to me so we could get his policy in place. Shortly after I had called him to remind him, yet again, to send me the paperwork, he had to visit Sydney on business. He was crossing the road, got hit by a car and was killed. His wife called me to ask about the insurance and I had to break the terrible news to her that he had never sent me the forms. To make things worse, the sale of the business did not bring in \$1 million as he had calculated, but only \$100,000 once all the creditors and the bank had been paid. That left his wife with no lump sum and \$800,000 of debt. As she was not trained in business there was no way she could make that level of income. She and her children had to move in with her parents. The traumatic loss of her husband was made even worse by the financial disaster that followed.

There are several different types of insurance to help protect you and your family, not just life insurance, so let's analyse them one by one as some of them may be new to you.

Income Protection Insurance

An ability to create income is a crucial part of wealth creation. You can then use clever investment strategies with some of that income to build your assets for the long term, as we have seen. Obviously, you don't want to lose the money you have invested. But you don't want to lose your ability to earn either. And that is arguably even more important.

It does seem incredible that people will think nothing of spending hundreds of dollars on car insurance every year to protect something worth fifteen or \$20,000, yet don't insure their earning ability which, as we saw in Chapter 2, can be worth several million dollars even on an average income. And the probability of someone claiming for injury or illness in their working life is a lot higher than the probability of claiming for damage, collision or theft of their vehicle. For example, did you know that more than sixty per cent of Australians may be off work for more than six weeks due to illness, injury or disability? You may think you are covered by Workers' Compensation but many injuries and accidents are not work related. Likewise, you may find

there are lots of events that are not covered by your superannuation policy. And some income protection policies may only cover you for between two and five years, which means that in the event of a longer disablement, you may have to sell off all the assets that you have built.

Therefore, if you are highly reliant on your income, insuring the thing that underpins your ability to create wealth in the future makes sense.

Now I know buying insurance isn't sexy or exciting. You are buying something before you need it. Maybe you will never need it and let's hope you don't. But it is something that can be used to hedge against future financial risks. For a small percentage of your income, you are buying a policy to protect and preserve your income for life, transferring a part of your financial risk to an insurance company in exchange for a relatively small premium.

The worst case scenario is that you will have wasted some money if you never make a claim. But if you have to stop working unexpectedly because of accident or illness your income will be preserved and your wealth creation strategies can continue uncompromised.

Imagine working and investing from the age of twenty and then having a mishap at age forty, which means you have to start spending your assets. Something that has taken decades to accrue can be gone in a few weeks.

Ideally you want to buy income protection when you are young and healthy. Talk to your adviser about level premiums which can protect you from future premium rises. Do not leave it too late. My advice is to consult a qualified financial planner who can determine the right kind of insurances, amounts and products for your particular circumstances.

Trauma Insurance

Income protection insurance covers you temporarily if you can't work because of accident or illness and the type of condition doesn't have to be specified in the policy. Trauma insurance, also known as 'critical illness insurance' or 'recovery insurance', is designed to pay you a cash lump sum if you are diagnosed with one or more of a specific list of severe and life-changing medical conditions, meaning you can't work or provide an income for your family.

I believe that you need to look at facts head on. The following statistics on illness in Australia are not supposed to frighten you, but to make you think about the practical need to get the right kind of cover if your earning ability should disappear.

Cancer Statistics in Australia

Bowel Cancer

- One in twelve Australians will develop bowel cancer before the age of eighty-five.
- Every year, 14,234 Australians are diagnosed with bowel cancer (*Bowel Cancer Australia, 2013.*)

Skin Cancer and Melanoma

- Two out of three Australians will be diagnosed with skin cancer by the time they turn seventy.
- Skin cancer and melanoma account for eighty per cent of all new cancer cases.
- Melanoma is a type of cancer that commonly affects people between the ages of fifteen and forty-four. (*Cancer Council of Australia, 2013*)

Lung Cancer

- In 2010, lung cancer was the leading cause of death in Australia (8,099) followed by bowel cancer (3,982), prostate cancer (3,235), breast cancer (2,864) and lymphoid cancers (2,769) (*Cancer Australia, 2013*).

On a typical day in Australia:

- Nine hundred and sixty people will be diagnosed with cancer
- Thirty-five people between the ages of thirty-five and sixty-nine will survive a heart attack
- Thirty-eight people under the age of seventy-five will have their first stroke
- Forty-one people will undergo coronary artery by-pass
- Thirty-one people will undergo coronary angioplasty procedures.

Source: Australian Institute of Health & Welfare

To qualify you must have proof of diagnosis and the condition must be listed in your policy. It does not have to be fatal, but you need to be aware that the policy is intended for very serious medical conditions. It can be used to pay for medical care or to pay debts and ease the financial pressure on your family, so would be a good choice for people who are of working age and perhaps have a mortgage or other debts.

There are different policies available. Generally speaking, the cheaper policies cover fewer conditions—the most common are heart attack, stroke and cancer—but many other conditions can be covered, including Parkinson's disease, blindness, paraplegia and dementia.

Premiums can be stepped or level. A stepped premium starts low and increases with age, while a level one remains the same throughout the life of the policy. If you intend to keep the trauma insurance for a long time then level will be cheaper in the long run, but it all depends on your personal circumstances. Your financial adviser will be able to help you decide which one is the most appropriate for you.

Disability Insurance

Total and Permanent Disability Insurance (TPD) will cover you if you are permanently disabled and unable to work because of accident or illness. This situation is traumatic in itself, but is also likely to have a big impact on your family. You may need to move or to adapt your home, pay for rehabilitation and other kinds of medical care, buy a specially adapted car—all large outgoings as a result of the condition. Add to that the fact your income will suddenly stop, but the bills and expenses won't and you begin to see the benefit of this type of insurance.

This happened to a client of mine recently in the prime of life and the best of health who was stung while on a diving holiday and went blind as a result. Her income disappeared overnight. Fortunately, she was covered by the right insurances.

There are two types of TPD insurance available. One covers you for not being able to continue in your 'own profession' due to a disability. The other covers you for not being able to continue in 'any occupation' due to a disability. If a professional singer permanently loses her voice she would be covered under the 'own occupation' policy but not necessarily under the 'any occupation' policy as she could still write songs or become a music critic, for example, even if she can't speak.

Like trauma insurance, the premiums can be stepped or level and the cover depends on your personal situation. Very often this type of insurance is taken out at the same time as life insurance, so you need to talk things through with your financial adviser to get the best solution for you.

Life Insurance

Another type of insurance policy that is crucial, particularly if you have a

family or people financially dependent on you is life insurance. Unlike income protection, this is not about you. This is about protecting those you leave behind from financial devastation, as happened to the family of the business owner I mentioned at the beginning of this chapter.

When you die without life insurance, not only does your income-providing ability disappear, but so does your ability to repay debt and create a financially stable future for your family. Worse, you are risking leaving your family destitute, with no long-term legacy to pass on to future generations.

It is therefore critical to get a policy which *at the very minimum* provides enough cover to:

- pay outstanding debt (remember - debt should never outlive the person.)
- take care of financial dependents until they become independent
- provide a replacement income for a non-working spouse.

There are various types of life insurance policy. Some cover not only death but also disability and critical illness, both of which seem to be on the rise worldwide.

Because everyone's needs are different, it is important to get advice from a qualified insurance professional who will help you select the best policy for you and your family.

Insurance review

- What is your current insurance situation?
- How do you / your partner feel about your current level of insurance cover?
- Do you know a reliable insurance adviser you could consult? If not, how could you find one?
- Do you think it would be a good idea to get an insurance consultation to assess your insurance needs?

It pays to set aside some time to do this assessment and then to take some action. Once you get the right level of insurance sorted out you have peace of mind, and that is priceless.

However, insurance is just one side of the wealth -protection story.

Estate Planning

Once built, you have to set up appropriate mechanisms to conserve your assets and ensure they're passed on to people at the right time and in the most appropriate way.

It may sound unnecessary, surely your estate will automatically go to your children and spouse, particularly if you have made a will? The reality of the situation is quite different. Australia has a 50 per cent divorce rate. Blended families are very common. This may affect your own marriage or the marriage of your children. The wealth you thought you had left your son or daughter may, in fact, end up in the hands of their divorced partners instead. You need to take steps to ensure your assets go to the right person, no matter what happens in their personal lives after your death.

If you have kids, you need a will. If they are young, the assets can be held in trust for them, meaning they can benefit from the rights of the asset without having the ownership of it. This is important as young adults or children lack the maturity to handle finances. Add to the mix the volatility of relationships and you can see how easily your hard-earned assets can be lost.

As an example, consider a little girl Sara born to thirty-six year old parents. They work hard on creating assets that they can pass on to her and accumulate a substantial amount over the next twenty years. But they only make a normal will, leaving their daughter everything. An accident means Sara loses her parents at the age of twenty. She inherits everything but then enters into a dubious relationship and gets married at twenty-one. They split up after eighteen months and Sara's ex ends up with half her parents' assets, despite not being a blood relative.

This scenario is quite possible. Relationships do fail, people do make bad decisions. To avoid it, it is important that you take appropriate legal advice. Despite what many people believe, a normal will does not make provision for your assets to stay in your bloodline.

It may sound morbid to discuss what will happen after you die, you may feel uncomfortable thinking about it, or feel an illogical superstition that if you do something about it, you will somehow bring on your own demise!

Be reassured that the wealthiest individuals already have all these things in place. They can relax knowing it is all taken care of and that their assets will go to the right people when the time eventually comes.

Not thinking or talking about it does not make you immune to future events. You need to put your children, your spouse and anyone else you care about first, so that they do not face the horrible nightmare of fighting for what it rightfully theirs after you are gone. Or, worse still, be left with nothing.

Assessing Your Situation

Make some time to sit down with your partner and discuss the provisions you have made after your death.

- Do you have a will? If you do, is it up to date? If not, should you make one?
- Who benefits? If you have children, is your bloodline protected?
- How can you find out more about estate planning?

Wealth Protection Planning

As an adviser, when I draft financial strategies for clients to assist them in achieving their wealth creation goals, part of my job also involves recommending appropriate insurance products and estate planning strategies to protect and preserve their financial position. Most clients will end up with some combination of the four types of insurances.

Choosing insurance is a financial decision that needs to be carefully thought through. There are a number of considerations to take into account including amounts, combinations, ownership structures, premium types and even the tax implications of insurance proceeds paid when a claim is made. As always, this is something that you need to talk about with a qualified professional financial adviser.

My last word on insurance and estate planning is this. It isn't interesting, it isn't exciting, but it is absolutely essential in order to preserve and protect your wealth and do the best by your family.

'Only when the tide goes out do you discover who's been swimming naked.'
Warren Buffett

Now that very important topic has been covered, let us turn our attention to risk.

CHAPTER 6

DON'T TAKE UNNECESSARY RISKS

'Risk comes from not knowing what you're doing.'
Warren Buffet

There is no such thing as a totally risk-free way to create wealth and it is important that you understand the role that risk plays. Sometimes behaviours or strategies that you think are sensible and risk-free, such as keeping away from volatile investments, keeping your money in cash and only putting your money into one type of investment are actually riskier than they appear. I want to help you embrace a degree of risk without being silly about it. In this chapter we will look at ten key concepts related to risk, beginning with risk itself.

Managing Risk

Risk is all around us in many different guises. We accept that as a trade-off for doing the things we want to do. Do you own a car, for example? That's a risk, because you know there are sometimes accidents but I'm sure that doesn't stop you from using your car to get around! You manage the risk by improving your skills and monitoring the environment while driving. You know you can't control the behaviour of other drivers, the road conditions or the weather. You can, however control the type of car you drive, its condition and your own driving skills. And by doing so, you keep as safe as you can and eventually reach your destination.

In investing, the same analogy works. People can't control the investment markets. It's quite normal for market declines to happen. This is also true for real estate, gold, bonds or shares. The key factor is to manage the things you can control.

No investment is inherently risky or risk-free by itself. The perception of risk also differs from one person to another. What one person considers risky might be considered relatively safe by someone else. In fact, the investor brings a certain element of risk to the equation through his own beliefs,

knowledge and actions. For example, everyone knows someone who has lost money on the share market. Does that mean that the share market is a guaranteed way to make a loss? If so, why are billions of dollars invested in share markets around the world? And why are some people successful with shares investing? A combination of the right resources, knowledge and beliefs has probably contributed to their success.

People can obtain very different results from doing the same thing. The point of difference is always the mindset of the individual. As we have already established, getting your mindset right is probably more important than anything else when creating wealth. A strong sense of humility will save you a lot of trouble in the investing game.

It's a fact that every financial decision you make carries some sort of risk:

- If you take out a mortgage, you risk interest rates going up and not being able to keep up with your repayments.
- If you buy a house, there may be a downturn or you might miss the “opportunity cost” of investing in income producing assets because you were too busy paying down your house.
- If you buy international shares you may be affected if there is any fluctuation in currency movement.
- If you only invest in the Australian market you may suffer a loss if there is an economic downturn in a few key industries that affect the Australian market.
- If you buy an investment property at market peak, you may pay high acquisition costs and the property may remain stagnant for many years.
- You may get bad tenants that misuse your investment property.

Even the decisions you *don't* make can be detrimental to your financial situation.

- Not investing may mean your money never grows and doesn't keep up with the cost of living.
- Not buying a house may mean you are forever priced out of the market.
- Not investing in emerging economies may mean you miss the growth that these economies may experience because they come off a much lower base.

I'm telling you all this to illustrate one point—risk in money decisions can never be eliminated. Risk can only be reduced, minimised or managed. If you want to grow your wealth you'll have to bear some degree of risk.

Check Your Financial Situation

Answer these questions to get an idea of how much risk you may need to take.

1. How big a gap is there between where you are financially and where you want to be?
2. How much time do you have to grow your wealth?
3. How do you feel in general about taking risks?

For question 1, if there's a significant gap between where you are and where you need to be financially, you may indeed need to take some level of risk to achieve your outcomes. Not everything risky has the potential to grow your wealth, but to grow your wealth you may need to take some risk. A good financial adviser will help you determine the level of risk you need to take to achieve your goals and to minimise the level of risk for a required rate of return.

For question 2, the shorter your time frame, the less you have the ability to take risk. This doesn't mean that you shouldn't take risk at all, it just means that your risk is higher than someone using a similar wealth creation strategy in a longer time period. This is because a portfolio of quality assets should always do well over time and the longer your time frame, the more probability there is that this will happen. If you have a shorter time period to create wealth, then more unexpected things can occur. This is why it's important to start as early as possible and stay invested for as long as possible.

Regarding your answer to the last question, you may embrace risk, be risk-averse or fit somewhere between the two. That will affect how you invest. Savvy investors understand that there's a risk associated with creating wealth. Good quality growth assets with higher volatility and risk have historically always provided a better return than lower risk assets. In fact, if it wasn't for the risk, investors wouldn't get the higher growth typical of a diversified portfolio of quality growth assets. American investor and entrepreneur Robert Arnott puts it this way: 'In investing, what is comfortable is rarely profitable'. Investors don't always get higher returns for higher risk, but a good financial adviser will help you minimise the risk and maximise your potential return, making sure you're not taking on any more risk than you need to in order to achieve a higher level of growth in your investments.

I want to explain some of the concepts involved in risk to you so you have a strong knowledge base when it comes to taking decisions regarding your finances.

Capital Loss

Simply put, this means losing your money. Any kind of investment activity involves the risk that you will lose the money you put in. As a general rule,

the higher the potential investment returns, the higher the risk of capital loss. Some people are prepared to absorb that risk in the hope of making a great deal of money, some aren't. Buying quality assets and avoiding get rich quick schemes can minimise this risk.

Opportunity Cost

When you have a choice of investment alternatives, the opportunity cost is the difference in return between the choice you make and the ones you have rejected. For example, imagine you receive a \$10,000 inheritance. You are given the opportunity to invest in some shares, but decide to do nothing and leave the money in the bank. One year on, the bank has paid out a stingy two per cent interest, while the stocks have yielded six per cent. The opportunity cost of leaving your money in the bank instead of buying the shares is four per cent (six per cent minus two per cent).

Sometimes one choice will give a comparatively good return, which can blind you to the fact you have missed out on something even better. You may be extremely happy your savings account has paid you three per cent interest, especially if your friends are only getting 2.5 per cent. But that doesn't look so good when compared with a government bond you decided to pass on which yielded 5.5 per cent.

Volatility

You'll hear a lot about volatility, particularly with regard to investing. It means fluctuations in the value of an investment over a short time period, as opposed to the long term tendency. Using the property market as an example, the average price of a house in Melbourne in 1993 was \$126,000. Twenty years later, the average house price in 2013 was \$539,000. You don't need to be a genius to see that the long term tendency is upwards. However, if you break down that twenty-year period into small chunks, perhaps looking at five years, one specific year or even a few months, there are many ups and downs within that shorter time frame. Those rises and falls within the larger cycle show the property market's volatility.

To invest successfully you need to ride out volatility while minimising risk. Remember how important it is to keep a cool head and leave emotion out of the equation, because *volatility itself is not risky but the reaction to volatility is*. In other areas of life (for instance, food, petrol, technology) people buy when prices drop, and yet when it comes to shares, people sell if prices fall! It is counter intuitive and fear-based.

Generally speaking, the greater the potential reward, the greater the risk or volatility. If you are looking for high returns it's better to opt for higher volatility rather than higher risk.

But remember that as long as you stick to the golden rules of buying quality assets and keeping them over the long term, then short term fluctuations will not affect you, even if others are panicking.

Loss of Purchasing Power

Some investments can have low volatility and still be high risk through loss of purchasing power. Take cash for instance. It may sound low risk to keep your money in cash—even if it is not actually under the mattress it may be in a current account in the bank—but loss of purchasing power can come through currency devaluation and inflation. This is every bit as devastating as the loss of money put into investments.

Inflation is defined by *Investopedia* as, 'The rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling'. The average rate of inflation in Australia for the period between 2009 to 2013 was 2.5 per cent per year, in fact most countries try to keep their rate of inflation between two and three per cent per year. (Source : <http://www.rateinflation.com/inflation-rate/australia-historical-inflation-rate?start-year=2008&end-year=2014>) Put simply, a 2.5 per cent inflation rate means that a kilogram of cheese cost \$10 one year and \$10.25 the next. Every year, your money buys you less and less. To bring this home, have a look at '*What Groceries Used to Cost*' which shows prices for groceries in Victoria between 1901 to 1999. <http://guides.slv.vic.gov.au/content.php?pid=14258&sid=95525>.

There's an old joke about a man who goes to sleep and wakes up 100 years in the future. He still has a bank account paying 0.01 per cent interest and is delighted to find that after 100 years he has \$1 million in there! He's rich! He withdraws some money and decides to buy a car. On the way to the showroom he feels hungry and stops for a sandwich and a beer. He tells the cashier that he is on his way to buy a sports car. 'That's great!' says the cashier. 'Okay, one sandwich and one beer. That's \$100,000 please.'

Joking apart, the impact of inflation even over a twenty to thirty year time frame can be staggering. I call loss of purchasing power the silent killer. It creeps up on you without you knowing.

Paying Too Much Tax

Tax is a necessary evil. Everyone needs to pay their share, but make sure that you are not paying more than you have to.

As a salaried employee, you pay tax first and then get what is left. As an investor or business owner you pay yourself first, then invest a proportion and then pay tax on what is left.

In general, governments of most countries want to encourage business owners and investors because they help create employment and generate wealth. This means there are a number of incentives available to you as an investor which are not available to salaried employees.

It is up to you to find out about the various tax breaks and take advantage of them, they are not applied automatically. I want to be clear that I am not talking here about tax avoidance or even tax evasion, but tax minimisation. If you don't get a good accountant to guide you through all the forms of tax relief available then you can erode your wealth over a lifetime by paying too much tax because you weren't aware of the rules. It always pays to consult experts, so find a reliable and proactive accountant as soon as you can. Investors and business owners generally enjoy great tax benefits. This does not mean that any strategy should be undertaken with the primary purpose of reducing tax. Tax reduction should always be an ancillary benefit, not the main benefit.

Paying Higher Costs than Necessary

In general, there are two ways to invest: follow the markets or look for anomalies in the market and exploit them. Both of these methods incur certain costs if you use a professional. The trick is to minimise these costs by doing sensible research, using your common sense and spreading the risk.

No one can consistently outperform the markets over the long term. Choosing an investment strategy that follows the markets is cheaper because it is a tried and tested formula which does not need so much work from a fund manager.

On the other hand, there are specialists who don't follow the market. They access investments which are not available to the private individual and then exploit anomalies based on their experience and research. These kind of investments cost you more because they involve more proactive work on behalf of the fund manager and a greater level of knowledge and experience. However, the potential gains are much higher.

A sensible approach is to blend both these styles, allocating the majority of your capital to safer investments and a small percentage to the riskier kind.

Make sure that you understand your financial adviser's investment beliefs and

are comfortable with them. Cheapest is not necessarily the best, but neither is the most expensive. For further information on this, see Chapter 8.

Over Concentration on One Asset Class

Having a mix of investments can help you achieve your financial goals and spread the risk. Markets perform in cycles and when one asset is up another may be dipping down, thus neutralising any losses.

Choosing the right combination of assets is important because you want to ensure you meet your financial goals within the time frame you have set yourself. Getting professional help with asset allocation is always a sensible decision.

Beating/Timing the Market

When buying or selling an asset, many people will aim to beat the market by trying to choose the perfect time. If they are buying, then they may analyse the way prices have fluctuated, trying to find out the exact moment they will go down enough to make a clever purchase. If selling, they will try to hold their nerve and wait for the perfect moment when prices have hit the very peak.

Some people—often very active traders—believe that it is possible to time the market. They may be successful, but it requires a great deal of knowledge, nerve and the ability to keep monitoring things twenty four hours a day, as even the slightest move can be crucial. These traders are working in the short-term world of prediction and fluctuation, volatility and high risk. Very few (if any) are successful, and some pay a very high price for doing so.

If you are looking for long-term growth, as I hope by now you are, then remember it is well nigh impossible to consistently beat the market over time.

Being Tempted by Market/Media Noise

It is all too easy to get sucked into a media-driven world with its fads, constant rumours and endless speculation. Steer away from what the crowds are doing because it very rarely pays off and you end up rushing after the latest flavour of the month which often spells disaster. Just look at the dot com boom and bust as an example. There's a famous Warren Buffet quote which warns against the herd mentality. He says: 'Attempt to be fearful when others are greedy and to be greedy only when others are fearful'.

Never forget that the media's job is to provide content to a hungry public, twenty-four hours a day. A story is all the more exciting and 'newsworthy' if it has some scandal, intrigue or excitement attached to it. Trying to rely on the media for financial advice is like asking readers of a blog who you should marry. Not a good idea.

Apart from the distraction of constant media noise, bear in mind that there is an inevitable time lag between getting the information and reporting it. By the time you read about it, the money has already been made or lost.

Wealthy individuals understand that blocking out the sound and fury of the media and rumours from the market will contribute to financial success. If you want some juicy gossip and easy entertainment then watch rolling news. When investing, think long term, stick to your strategy and trust tried and tested fundamentals.

That gives you a brief summary of the various types of risk you are likely to encounter. Bear in mind that avoiding risk altogether can be a bigger wealth destroyer than taking a well-considered and calculated risk, managed through appropriate strategies and regular monitoring. Your financial adviser will be invaluable in helping you decide how much risk you are prepared to take to achieve your financial goals.

It's now time to look at the next thing we can learn from the wealthy about financial success. It's all about spending, or rather, not spending. Tighten your belts everyone...

CHAPTER 7

BE CONSCIENTIOUS ABOUT YOUR MONEY AND FUTURE

'Annual income twenty pounds, annual expenditure nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pound ought and six, result misery.'

Charles Dickens, David Copperfield

Val Woods is twenty-nine, has a great job in marketing, owns her own apartment in Melbourne and drives a red Lexus. She loves shopping and wears designer clothes usually bought on her credit card. She also has absolutely zero savings and changes the subject when you mention the word retirement. 'Boring! That's a long way off,' she laughs. 'Anyway, I'm going to keep working until I drop—I have to pay off my credit cards! And I can't imagine ever retiring, I'd be bored witless. Hey, did I show you my new iPhone?'

Val is not alone. Living for today is exciting. Talking about pensions and retirement when you are in your twenties or thirties (or older) is boring. It's too far in the future and hard to imagine. But it's absolutely crucial that you think about it and the sooner the better. Here's why.

Things have changed a lot since our parents' day. Back then, most people worked (often for the same company) until they were sixty or sixty-five years old. Then they had a few years living off their pensions before dying at seventy or seventy-five. In other words, they worked for forty years and then lived maybe another ten in retirement.

Modern healthcare and a better standard of living means that we are all living much longer, but retirement ages haven't changed that much. That means that if we live until we are ninety or so we have almost as much time in retirement as we do working. Did you realise that? Probably not, a lot of people don't.

Let me put it another way, because I want you to understand how important this is. We have an income for thirty or forty years. Then we live another thirty or forty years *without* an income. We need to be able to provide for

ourselves now, while we still have a pay check, for the time when we have no money coming in.

No-one saw this coming. Governments around the world are struggling to find funding to pay the state retirement pensions for an aging population. In Australia, a retired couple reliant on the age pension can cost the government a staggering amount to fund if they live for thirty years after they stop working. Countries are coming to the conclusion their workforce needs to work longer and so they are raising the age at which people can retire with a state-funded pension. In Australia, people born after 1960 will now have to work until they are sixty-seven. There is even talk of increasing this to seventy, meaning our children will be working longer than ever before.

Despite this, in Australia the average retirement age is fifty-eight, not because there are more millionaires living off private income, but because people have had to stop work for a variety of reasons out of their control. We talk, like Val does, as if continuing to work is our choice, but it isn't. All kinds of things can happen to stop you working: redundancy, ill health, accident, a partner or an aging parent needing to be cared for, the list goes on. One thing is certain. You will stop working one day.

You might think that Centrelink is the answer. You have paid your taxes and so they will support you when the time comes. Think again. The average individual wage in Australia is approximately \$1400 a week. The maximum basic rate age pension for a single person is \$776.70 a fortnight. I know that people do less as they get older and may not spend as much, particularly in the later years. But that is still a big cut in income. Could you manage comfortably on a quarter of your normal earnings? And even if you can, do you really want to accept such a massive drop in your living standards after a lifetime of work?

It's time to face up to the fact you will be living a long time in retirement so you have to do something to fund it now, while you are still working. It's never too early to start. Warren Buffet famously said that his biggest regret was not buying his first share until he was eleven! If you are in your twenties and reading this, great, you are starting at the right time, you have maybe forty years of saving ahead of you. In your thirties, it's late but plan things right and you should be fine. In your forties and you have already cut in half the time you have to save. But the bottom line is that when planning for an income in retirement, the sooner you start the better. There are some great strategies available for people thinking about retirement that can help in minimising taxes and boost your superannuation. Talk to your adviser if you are thinking about retirement to better understand the options available to you.

Thinking About Your Retirement

- When do you think you'll retire?
- How many years between then and now do you have?
- Imagining you live until you are ninety, how many years in retirement is that?
- What income do you think you will need to maintain a comfortable lifestyle once you retire? (Don't forget about our friend inflation, currently averaging 2.5 per cent a year in Australia.)
- How will you get that income?
- What do you already have in place to cover your retirement?
- How much of your required 'comfortable life' income does your existing plan cover?
- What additional steps could you take now to plan for your retirement?

Frugality Rocks

Many millionaires are very conscientious about their lifestyles. They scrutinise their expenditure and know where their money goes. They live simply and even frugally. They own unspectacular houses in average suburbs and don't drive luxury cars. They take ordinary holidays and wear normal clothes. They understand the difference between lifestyle assets and investment assets and have peace of mind as a result. Their current and future lifestyle is safeguarded because of the financial measures they have put in place and their lack of extravagance.

One of their secrets is that they spend less than they earn. Sounds simple, doesn't it? But unfortunately many people feel the need to keep up with the Joneses and so flash their cash (or probably their credit cards) on all manner of shiny things that showcase how 'successful' they are. I would argue that true success is having independence and dignity, particularly once you have stopped working. It doesn't mean you can't have nice things: good clothes, fine wine, quality furniture and a nice home, as long as you can afford it and aren't ostentatious.

Frugal living doesn't just mean paying off your credit card debt. It means being satisfied with what you have, not being defined by your possessions. It means shopping sensibly, going to sales or looking for good deals. It means buying things that are good value and do the job rather than look showy. According to the book *The Millionaire Next Door* the car of choice for the majority of millionaires is not a Ferrari or a Mercedes but a Toyota.

Manage Your Debt

Some debt is 'good debt' and we'll look at that in a moment, however some is most definitely bad. I'm talking about credit cards. Credit card debt has to be tackled head on if you are to improve your financial situation. Spending on a credit card is so normal that many of us don't even consider it as debt at all, but it is and expensive debt at that. According to the Australian Government website www.moneysmart.gov.au Australians owe around \$33 billion on credit cards, which works out at an average of \$4200 per card holder. The average card holder pays \$750 in interest a year if their interest rate is between fifteen and twenty per cent.

Seven Questions on Your Spending

1. How much do you earn per month?
2. How much do you have left at the end of the month?
3. How much do you owe on your credit card(s)?
4. What is the rate of interest on each card?
5. How much is the credit card payment each month?
6. How much do you pay per year in interest on your card?
7. How long will it take you to pay your card(s) off?

There are many resources to help people with credit card debt. Steps to take immediately are to stop spending on the card, pay more than the minimum payment each month and pay the credit card with the highest interest off first.

You may have read that your priority when trying to get wealthy should be to pay off all debt first then save and invest. I don't necessarily agree with this. Although credit card debt and spending beyond your means is a very bad idea, debt can sometimes be a good thing if you are borrowing to buy a quality investment that will help accelerate wealth creation. It is ideal to try and create wealth without borrowing, however for most people efficient use of some debt may be required to create a higher level of wealth.

The reason is this. Currency typically devalues over time, but quality investment assets have a very high probability of increasing in value over time. Imagine you borrow \$100,000 to buy a quality investment which you keep for twenty years. Your repayments for the debt are fixed and you also get tax relief on the interest you pay on the loan. The asset you buy may be worth quarter to half a million dollars by the end of the twenty-year period and you may still only owe \$100,000 (if the debt is not paid). As long as you don't get tempted to panic sell if the stock market dips (which it inevitably will over twenty years) you should make money provided you have diversified, stuck the course, and rebalanced your portfolio periodically. How do I know this? Because I believe in statistics and probability. Ten thousand dollars invested in 1984 in a diversified portfolio of Australian shares in 2014 would be worth

\$278,615 (Source: Vanguard 2014) despite the number of financial crisis, wars, terrorist attacks, natural disasters and major economic events. And the trend has been the same for as back as the data goes, including the Great Depression of 1929.

Don't forget the words of Sir John Templeton: 'The four most dangerous words in investing are: "this time it's different"'.

The best advice is to keep your long-term goals in sight, stick to buying quality assets at today's prices and then hold on to them.

Maximising Your Working Years

When you are working, you should aim to set aside a proportion of your income for savings and it's wise to allocate a percentage for investment too. Twenty per cent is a good figure to aim at. Anyone who manages to do that at the start of their career will achieve financial independence by the end of it. It just takes discipline and small steps. In the first few years your investment assets are at the accumulation stage. Ideally you should be buying them regularly and spending more on them than lifestyle assets. This is where things tend to come unstuck as most people tend to splash out on lifestyle assets as their income goes up. Suddenly there's a better car in the driveway of a bigger house in a better neighborhood, designer clothes in the wardrobe, all the latest gadgets and gizmos ... we've all been there (yes, even me, my weakness is clothes!).

The trouble is that lifestyle assets won't provide you with what you need most when you retire—good old cash. You might think, 'Oh, I can always sell the house, it's gone up a lot in value. Then I can move somewhere smaller'. The trouble is that if your house has gone up that much in value then so has everyone else's and it will cost you more to move, even if you are downsizing. With this approach you'll end up selling all your lifestyle assets until you don't have a lifestyle! Warren Buffet says: 'If you buy things you do not need, soon you will have to sell things you need'.

If you have invested wisely and taken the slow road, retirement is where you reap the benefits. Remember that the definition of financial independence is having enough to pay your expenses without having to work. Only a very small percentage of people achieve this, even though the strategy for getting there is quite straightforward.

Investment assets make you money. You still have the capital you spent buying them and they also gain value over time. I'm talking about shares, real estate, businesses etc. You need to learn to love your investment assets more than your lifestyle ones. You can't show them off to the neighbours or admire

them on a table or wear them to a nightclub (unless you are really strange), but they will look after you much better in the long run.

Now you may think that all this talk of credit cards, pensions and retirement is depressing. You'd rather live for today and spend for today because you could get run over by a bus tomorrow. I would go back to our old friend probability. It is more probable than not that you will live to a ripe old age, because more and more people are doing exactly that. Yes, accidents, disasters and so on do happen and twenty-four-hour news makes such a drama out of every single incident that even very rare events are made to seem commonplace. We all think it might happen to us so we end up spending in order to forget about it. The statistics show that in reality, your probability of living a long life is very high.

To become financially independent and to be a wise investor you need to be optimistic. You need to look to the long term with hope and the expectation that you will have many years of retirement. That is why you need to plan for that time well in advance, starting today. Millionaires do it and so can you.

We are almost at the end of the book. In the final chapter we'll see how wealthy people don't try to do everything themselves. It's all about the team.

CHAPTER 8

SURROUND YOURSELF WITH TRUSTED EXPERTS

'The key for us, number one, has always been hiring very smart people.'

Bill Gates, CEO Microsoft

I've spent many years and many thousands of dollars studying for qualifications and learning everything I can about finance and investment. I get up at five in the morning to do research and keep up to date with all the financial and investment information out there. I sleep, eat and breathe finance. I am totally passionate about it. So I'm not blowing my own horn when I say I'm an expert at what I do.

Recently, I wanted to buy a property to add to my portfolio. I knew what I wanted and how much I wanted to spend, I just needed to find a place that matched my criteria. But you know what? I didn't even think about doing this myself. Why? Because tracking down excellent investment property is not my area of expertise. So I hired an expert buyer's agent to find me the perfect property. Sure, I spent some time making sure she was as passionate and expert about property as I am about finance and that she understood what I was looking for. And I had to pay her a fee when she found me the perfect property! But her expertise will make me many times that amount as an investment over the next few years (it won't surprise you to know I plan to hold on to it for the long term).

I know I could have done the research, found a property myself and saved the fees, but I chose not to do that for two reasons. First of all, I'm never going to be as expert as someone who has made it their career. Secondly, I might save money by doing things myself (although I may also lose it by making the wrong decision) but it will cost me something far more valuable—my time and the opportunity cost of making a sub-optimal decision. As business author Michael LeBoeuf says: 'Waste your money and you're only out of money, but waste your time and you've lost part of your life'.

Outsourcing

We are all born with a full tank of time that slowly begins to diminish. We have to spend that time wisely, on the things and people we love, because we'll never get it back. So we have to engage in pursuits that give us the best return on our time and outsource everything else.

You might think outsourcing is something that only millionaires do, but that's looking at it from the wrong angle. As an example, if you make \$40 an hour you can still outsource anything you don't have a passion for, as long as it doesn't cost you more than \$30 an hour. You can do this for everything from gardening to doing your accounts.

I hire an expert gardener to take care of my yard because I don't enjoy gardening. He looks after it much better than I ever could—it is his passion after all—and it frees up several hours of time for me to spend doing the things I really love. Win, win!

Teamwork

My gardener is just one of the team of people I employ to help me and my wife. Other people on my team include a marketing consultant, a web designer, a writer, an accountant and a buyers' agent. I know my limitations and spend time on what I am expert at—investing and helping people make wise investment decisions. I leave the rest to people who understand and support my goals and who are helping me realise my true potential.

Improving your finances is like running a business. You are the CEO of your own wealth and you need to get a good group of people to help you. You might already have a bank manager and an accountant. Maybe you've never thought about them as being part of 'your team' before. But that's what they are, even if they don't all 'come to work' every day in your office or your home. They are part of a team you have put together to help you run your life better and achieve your goals.

Three or four heads are better than one and your team of trusted experts will help you focus on the bigger picture.

The Road to Financial Success

Surrounding yourself with good people will free up your time because they will do the job better and more efficiently than you could. They can also help you see mistakes in your thinking, which is especially important when it comes to creating wealth.

I know I've said it's important to spend time doing things you are passionate about. You should love your job, your hobbies and your interests. But when it comes to investing your money, save the love. Be sensible and think long term. Make it a priority to find the very best financial adviser you can, because I believe this area is one where you really *can't* do it yourself.

'Hey,' you might be thinking. 'I don't need to spend money on a team of living, breathing people. I can find all the experts I need on the internet and in the media. And it's free!'

Yes, there are plenty of people giving advice 24/7. Why not throw in your friends, neighbours, your great uncle Sam and that guy at work who said he made a killing on these great shares...

People always talk up the success stories, but play down the failures. I know a guy who was ecstatic when he won \$450 on the footy bets. He told everyone. It seemed to prove that people really do win money on the bets and maybe it would be good to invest a few dollars a week. I asked him how long he had been betting and he told me fifteen years at \$10 a month. He'd spent \$1800 to win \$450. Perhaps not such a good return after all!

When it comes to money advice from so-called 'gurus' get into the habit of questioning every piece of information with skepticism. Ask to see track records, proof, context. Remember the old adage: If it looks like a duck, walks like a duck and quacks like a duck, it's probably a duck!

Your financial adviser is going to be a key member of your team, probably the most important member. I'd go further. Your financial adviser may end up being the most important professional in your life. You need to choose wisely. Ask friends for recommendations, follow up references, give your search for the right person a lot of serious thought and attention. You are going to be trusting this person with your money and your future, nothing is more important.

The following section is to help you choose the right person.

How to Choose a Financial Adviser

The first thing that you need to know and understand is the difference between a financial advice professional and a financial product salesperson. Both have their place, but you need to know what they do in order to choose the right person for your situation.

A financial advice professional gives advice to people who wish to improve their financial position. They can advise on the best financial products for your needs, but this will be as the last step rather than the first step. A true

financial advice professional is ideally 'product agnostic' and does not favour any particular product. If you are after proper advice, direction and guidance, see an advice professional.

A financial product salesperson on the other hand will typically be a specialist in single or multiple product solutions. They may not necessarily take your overall position and needs into consideration before recommending a product. If you know what you are after, see a product salesperson (but don't ask a product salesperson for financial strategy advice or the best course of action, it's like asking a barber if he thinks you need a haircut!)

Having the right adviser by your side is critical to your financial success. To reach your financial potential, you will need a long-term relationship with a competent financial adviser you can trust. Over the years, a great adviser will add significantly far more value to your life than she or he will charge. Their services will include:

- maximising financial opportunities
- reducing the risks in investing and general financial situations
- optimising tax benefits
- reducing unnecessary expenditure
- coaching you to make smart decisions with your money
- preventing you from making financial mistakes (this is a big one)
- helping you make informed decisions
- helping you interpret the meaning of economic events on your financial situation
- keeping you from falling prey to spruikers
- helping you stick to your financial strategy by putting market noise and media predictions in perspective.

Employing a good financial adviser will produce better financial outcomes, more time to spend on your career and your family, less worrying, more clarity, peace of mind, confidence and a continued sense of security around how you are tracking towards your goals. With wise counsel, assistance and direction from a competent and trusted adviser, you will be in a better financial position than your friends, neighbours and family, who may try to do it all on their own, if at all. Believe me, the complexity and the stakes are too high to try and do it yourself or, worse, to leave it to a salesperson with a superficial knowledge of finance who is driven by their commissions rather than your best interests.

Here are some questions to ask anyone you are considering for this valuable place on your 'team'. The answers should help you make a good choice and minimise the risks of collaborating with the wrong person.

1. What is your investment philosophy?

This is an important question and a good way to find out if the adviser has a philosophy that they stick to. Any hesitation while answering is a sign that the adviser does not specialise in wealth creation advice, is not passionate about what they do or does not care what the philosophy is. That could mean that they are more interested in writing business and making sales than achieving good outcomes for clients.

There are many different philosophies that an adviser or business may adhere to. For example, the investment philosophy that I have adopted is that no one can predict or beat the investment markets consistently and therefore there is no use wasting my client's time and money pursuing those strategies. It is better to try and control the controllable factors that have a bigger impact on your wealth creation, rather than the uncontrollable ones that do not add much value anyway. However, if you are looking for enhanced returns, a small portion of your funds can be allocated to active management which endeavours to beat the markets through timing and selection.

The adviser that you are dealing with may believe that it is possible to beat the markets, or they can foresee the next hottest fad, before it takes off.

You will want to work with an adviser who thinks about wealth creation and investment markets the way you do.

2. How much professional and personal experience do you have with financial planning?

This question helps you to understand not only the professional experience that the adviser brings to the relationship, but also whether they adopt the same financial planning principles in their own life to get their own financial house in order. Often people have different professional backgrounds before they become advisers. If they come from a finance-related background, they may bring different but complimentary skills such as accounting, banking, lending and so on. If they come from a service industry they may bring soft skills, empathy and relationship skills. Having a lot of financial industry experience may sound attractive, but is not always ideal. Some of the old industry practices were based on product sales and charging transactional brokerage. Equally, you don't want to discount a new entrant to the industry if they have a passion for what they do and have a proper well-defined investment philosophy.

3. What services do you offer and do you have any particular specialisations?

Not all financial planners, wealth advisers and financial advisers are made equal. Some specialise in insurances, some in investing or retirement planning, and others focus on estate planning and some are holistic planners. By knowing their specialisation, you are in a better position to judge the fit. If you are looking for retirement advice, having an insurance specialist (unfortunately, at the time of writing this book, they can still call themselves financial planners), is not going to be helpful. Also, knowing the range of services that the adviser provides helps you better understand if the adviser or their company has the capability and the expertise you are looking for.

4. What professional qualifications do you have?

Professional qualifications are important, but by themselves they do not guarantee that the person is fully competent and equipped to provide advice at the level you need. Qualifications demonstrate technical competence, areas of expertise and an individual's ability to follow through along with the critical thinking skills required to complete education at a tertiary level. I would advise you to stay away from people who only have minimal qualifications and instead seek out someone with tertiary level education, some form of professional designation and who is a member of a professional association.

Finding the right adviser may take time, you may have a few false starts along the way and sometimes you may wonder if you have done the right thing. Don't be afraid to ask questions and use the knowledge in this book to have informed conversations with them at regular intervals. But at some point you will have to trust them to do their work. That is what you are paying them for and what they are trained to do.

Once they have spent time getting to know you and understanding fully your financial situation then listen to what they have to say. If it makes sense and is in line with your values then follow their advice. Your future self will thank you.

CONCLUSION

We've been on quite a journey together, but it's an important one. Thank you for sticking with me this far. It shows you are serious about your future.

If I want you to take just one thing away from this book it is this: *Things that are worthwhile take time.*

- It takes time to grow a tree.
- It takes time to grow a baby.
- It takes 10,000 hours to become an expert.

Time is the most important factor when it comes to creating sustainable wealth that lasts. Try to make wealth quickly and you risk making very expensive mistakes. Mistakes which can erode any wealth that you may have already created.

- The stakes are just too high to get it wrong.
- It has been said the best golfers in the world are not the ones that play the highest number of great shots, they play the least number of bad shots over the long term.

Be patient, be disciplined and start early. You might think fifteen to twenty-five years is too long to wait to create wealth. Look at it like this: the average person's life expectancy in Australia is eighty to eighty-five years. Fifteen to twenty-five years is only a fraction of that average lifespan. Look around your circle of family and friends and I'm sure you'll find examples of people who have tried to take short cuts and have been none the better for it.

Time will pass anyway. Start today, stick to the principle of wealth creation and you may have something to show for the years. The sad reality is that the vast majority of people won't do that, all statistics support that fact, and I find this very disappointing.

When it comes to creating wealth the odds are stacked against the average person, so why risk it?

I can understand you might want to do it all yourself rather than pay someone. You might be the kind of person who fixes your own car, mows your own

lawn and decorates your own home. But it take a long, long time, a lot of expertise and a lot of experience to learn about finance. Could you use the time better spending time with your kids, going for a walk with your spouse, joining a gym or even upskilling yourself to further your career and income?

Are you sure it's saving you money in the long term? When you get the colour of a wall wrong, all it costs is time and a can of paint to salvage your mistakes. Making a mistake with your financial planning and you could pay for it for the rest of your life.

Let me ask you this. Would you do surgery on yourself? It would certainly save you money and you would be in control, there's no denying that. It could also kill you.

In my opinion, managing your finances and growing your wealth is as serious as getting surgery. It requires the same precision and care from an expert. Getting it wrong can be irreversible and you may not get many other chances.

A financial adviser helps you use proper financial strategies, reduces financial risks and steers you away from the all-too-common financial mistakes that keep people struggling. We have looked at many of these mistakes in the book, but I'm going to repeat them because I don't want you to make them too:

- not investing early
- speculating and calling it investing
- being financially exposed due to under insurance
- neglecting your investments and superannuation
- not buying quality assets
- not sticking to a plan
- not diversifying your investments to reduce risk
- over concentrating your assets
- not understanding the difference between lifestyle and investment assets
- not re weighting your investment portfolio periodically
- not buying at the right times and selling at the wrong times
- paying more tax than necessary
- reacting to what your neighbours, friends and family say
- reacting to what the media says rather than sticking to your own plan and strategy ...and the countless other things that people do.

Don't be like them.

Simple – Not Easy

Creating and growing wealth is quite simple really. It involves planning and investing prudently for the long term. That simplicity is what makes it beautiful and effective.

But don't confuse 'simple' with 'easy'. Losing weight is simple—eat less, exercise more, but we know that most people can't do it. That's because it's not easy, it needs discipline, planning, motivation, accountability, staying the course and some tough love from a caring personal trainer or dietitian.

Your decision to build your wealth is one of the most important you make in your life. One that leads you to the one goal that everyone has: *the freedom to live life on your own terms.*

Start today.

ABOUT THE AUTHOR

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Ron has over 15 years experience in the financial services industry including financial advisory positions with some of the largest banking institutions and experience that includes funds management, private banking, commercial banking, superannuation administration and lending. He is passionate about wealth management and believes that "financial planning is the only way to create more options in life."

Ron has an Advanced Diploma in Financial Planning, A Post Graduate Certificate in Business and a MBA. He holds the AFP designation through the Financial Planning Association of Australia and the Associate Chartered Financial Practitioner with Association of Financial Advisers.

Ron has used his extensive and diverse financial experience combined with the insights gained through thousands of conversations with people about their money, to provide valuable content to the reader.

Content that will assist the reader in creating a solid foundation for their financial future.

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